



IDEA BOOK

**Representative
Bob Allen**

December 5, 2006

To: Speaker Marco Rubio

Re: **Insurance Conference Idea Proposals**

Dear Mr. Speaker,

Thank you for providing this innovative approach to solving a critical problem facing Florida, Our Insurance Crisis.

When the term crisis is used, the call for priority action is clear. You have chosen an open and strong approach to apply the full resources of the Florida House, its Members and the 18 million citizens we represent to solving our crisis.

BACKGROUND

Floridians have common sense and a deep pool of talent in our communities that are contributing their ideas to solve this problem. They understand Florida faces the challenges of hurricanes, and are ready to offer their fair share of sacrifice to meet the challenge. What they don't want is to allow this crisis to be an excuse for any particular sector to loot and unfairly gouge people.

Lifelong Floridians and many of our most senior and vulnerable are being wiped out by the proposed insurance rates. Additionally, the mainstream of our economy is being undermined and future families and small businesses are facing financial peril. Every member of this Florida House can recite thousands of cases of despair that must be addressed.

I would like to publicly thank and acknowledge the many citizens of District 32 which have come forward to help with their ideas and support for change. The *Florida Today*-Gannet Newspaper in my district has given great statewide coverage and in-depth research about this crisis keeping people well informed. Their Editor, Mr. Matt Reed, was a helpful co-sponsor of my first Town Hall Meeting on Insurance which drew over 800 people anxious to express themselves and learn more about this issue. Mr. Steve Burgess our state's Consumer Advocate for insurance participated as well as Rep. Randy Johnson.

Following this meeting, a gathering of over 250 Homeowner and Condo Association officers met to hear directly from the Chairman of CITIZENS INSURANCE and participate in another Town Hall exchange. Mr. Harry Charles, President of the Spacecoast Condo Association, was vital to

the success of this event. Mr. Charles is respected statewide as a leader and authority on condo financial issues and has produced some great support and ideas for saving Florida.

As you can see, District #32 has been busy and is ready to serve. District 32 is a unique Central Florida District that encompasses the center and eastern half of Orange County over to the ocean for a large portion of Brevard County. Four Hurricanes went thru District 32. Hurricane Charley came right up the middle of our main runway at Orlando International Airport in my district and twisted central Orange County badly. Frances, Jeanne all slapped Brevard and left a lot of challenges behind. The good news is we organized, rebuilt and learned from the experience. Things are better prepared and our community is ready to see the insurance problem fixed.

RECOMMENDATIONS

Floridians are smart and know when they are being taken for a ride. They have had enough abuse and are ready to stand up for fairness.

President Teddy Roosevelt once said that “Capitalism ...if left unchecked...can steal the dreams and riches of man as bad as the scourge of Socialism”

These comments by one of our great Republican presidents were made as our country faced a crisis of limited private monopolies taking extreme unfair advantage of the social and economic system of our country. Our country was facing the crisis of becoming a third world structure of very wealthy and very poor. The empowered main stream of a middleclass economy and new small business was facing ruin. He knew that when government was a party to allowing a business sector preferred treatment and little competition that the system would eventually eat itself and destroy any hope of growth and quality of life.

In Florida, today we are facing the same condition in our insurance industry. As lawmakers and the people's only representation we have to stand up and stand firm. In the spectrum of solutions we have Complete De-Regulation all the way over to Socialism.

We could just repeal all laws and completely deregulate all insurance, including any legal requirements to purchase it, and let the “lasse -fare” environment make prices compete. The problem is only the most prudent, responsible or financially able Floridians would purchase insurance and our economic growth and stability would be severely diminished. A Florida with massive numbers of uninsured auto drivers, homeowners, businesses and individuals would be a time bomb of financial ruin when adversity occurred. Our potential for solid economic expansion would be eliminated.

The other extreme is complete government take over with all the limited service and stifling lack of economic carrying capacity. A very costly choice with limited output capability.

Therefore, a prudent mix of fairness, regulation and private sector encouragement is called for. We must insist that the insurance industry make a FAIR PROFIT and not be allowed to use Florida to play in their international investments shark tank.

THE FLORIDA INSURANCE FAIRNESS RESTORATION ACT-2007
A RETURN TO FAIRNESS

This legislation has two main parts.

- 1) **The REPEAL** of several provisions that the insurance industry said would make a better marketplace for Floridians, but instead, were used as tools to exploit and destroy Floridians security. When Floridians received the shocking wake-up call in there insurance cancellation or renewal envelopes they began to do research. They have overwhelmingly identified the industry favors put in past legislation as the culprit of their mistreatment.

The following items should be REPEALED:

- The so called “Pup Companies” repealed. The national corporation’s full profit and loss record should be considered in Florida’s rate filings. No more hide and switch.
- All reinsurance expenses that are derived from the company selling to itself should no longer be allowed to affect rates in Florida.
- The “Use and File Rule” of rate implementation should be repealed.
- The Arbitration Panel.
- The auto allowable 10% rate increase without rate review.
- The standard of “non-excessive” that was changed from “reasonable” when reviewing rate requests.
- Repeal all provisions of CITIZEN INSURANCE assessments to other policies.
- Repeal the requirement that CITIZEN INSURANCE be the most expensive priced product. Allow it to be competitive.
- Repeal the requirement that CITIZENS be priced factoring the cost of private reinsurance.
- Repeal all obstructions to offer windstorm throughout the state.

2) **PRO-ACTIVE MEASURES**

There are many positive steps we can pursue to get out of this insurance swamp and back on the road of fair insurance for a fair price. The following list represents only a few of the good ideas coming forth through the citizens of Florida and their legislators.

- Require OATH of Truth, with perjury penalty for insurance financial testimony.
- Adopt Statewide Strong Building Codes.
 - Promote SAFEHOME Retrofits with matching dollars*
- Establish uniform statewide Inspection System and Rating Scale for property specific rate structures instead of using bad zone classifications.
- Prohibit the cancellation of policies during a Storm season.
- Remove windstorm restriction lines and issue insurance on site specific standards from inspection.
- Long-term customers with solid payment record and who maintain top rate structure classifications should not be allowed to be dropped for other new business.
- Aggressively pursue expansion of Florida CAT FUND with direction toward participating in FEDERAL or US REGIONAL CAT FUND. Also, explore federal FEMA LOAN/PAYBACK system to back re-insurance and CAT FUND.
- Flexibility of coverage depending on financial status of resident.
- Require all insurance companies that offer lines of insurance in other states that they must also offer in Florida. No more cherry picking.
- Require that the State Consumer Advocate approve and sign off on all rate applications before they are allowed to be implemented.

DESIGNATION OF ONE CENT OF EXISTING SALES TAX

When you have a GROWING ECONOMIC CRISIS like the one we are facing now in insurance BOLD ACTION IS REQUIRED.

This is a TWO-PRONGED proposal to utilize an existing one-cent of Florida Sales tax to be specifically designated to the Insurance Crisis until the Pump is Primed on a fix and critical catch-up items are achieved.

The First prong is the creation of the WIND DEDUCTIBLE REIMBURSEMENT CO-OP PILOT PROGRAM FOR “NAMED” STORMS.

Given that the sales tax one-cent generate approximately \$3 to \$4 billion a year; this amount would be applied to various insurance sectors to bring fairness and dependable rates to Floridians.

In order to allow for the private sector to offer lower rates for insurance coverage, deductibles need to be higher. This raise in deductibles must be done while protecting the consumer and the financial obligations from over exposure.

Therefore, in a Public /Private Partnership of the Deductible Co-Op should be formed to offer deductible coverage for the consumer that keeps the state’s exposure down and the private sector able to provide lower consumer rate.

½ of the ONE-CENT would be utilized to kick-off this program and prime the pump through the start up years 1-5, with a 10 year commitment if needed when the pilot program is expanded statewide. Once up and running and with the luck of any “no to low” storm seasons this breeder fed system would no longer need tax support and would sustain itself. Further, this project has several opportunities to assist the fixed income, seniors and others with there insurance. The Proposed Pilot Region would start with Lake, Orange, Seminole and Brevard Counties. This region has the demographics, geography, storm history and characteristics of our entire state. A good place to start.

The OTHER 1/2 of the EXISTING ONE-CENT SALES TAX, would be used to expand the CAT FUND and reinsurance programs for the industry to lower its rates. Assistance to CITIZENS INSURANCE and its transition would be a priority. Matching dollars for property upgrades like SAFEHOME Florida and other measures to incentivise improvements to our new scale of high standards will be pursued.

Representative Thad Altman

Ideas for Insurance Reform

Representative Thad Altman

1. Allow homeowners to purchase windstorm insurance in the amount of their mortgage balance rather than the full value of their home.
2. Separate windstorm from other elements of a homeowner's policy. For example, allow them to purchase fire and liability and, if they choose, to self insure for windstorm.
3. Create a windstorm mitigation program that would create a special low cost windstorm pool for structures that are constructed and/or renovated and certified by a structural engineer to withstand a Category 4 or 5 hurricane depending on the location.

**Representative
Kevin Ambler**

Florida House of Representatives

Kevin C. Ambler

Representative, District 47

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House Committees

Vice Chair, Military & Veteran Affairs
Judiciary
Colleges & Universities
Health Care Appropriations

Commissioner, Florida Commission on Tourism
Chair, Hillsborough County Legislative Delegation

December 1, 2006

Dear Colleagues,

As we look to find solutions to our current insurance crisis here are two of my ideas I would like to share with you.

1) PIRSA - the Florida Property Insurance Rate Stabilization Act

2) SITUP - Self-Insurance Trust Underwriting Pool -- primarily for high value coastal areas, this proposal actually is a program that is an alternative to hurricane insurance which is intended to satisfy the collateral requirements necessary to maintain sufficient security on a mortgage loan which encumbers over 90% of real property. I would be happy to discuss it further if there is interest. It is a bit more complicated than PIRSA so it does not lend itself to a short executive summary that would do it justice.

In addition, I have a plan to reduce property taxes by decoupling the revenue generating side of the equation which fluctuates with the value of property and the spending side of the equation. The program is called LOTSSA -- Local Option Tax Spending Stabilization Act. It would have to go on the ballot as a state wide referendum but it would be designed to go into effect only in those counties where the measure was passed by the voters (hence, the Local Option component). Once passed in a particular county, it would limit the spending

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by local government taken from the ad valorem funds to no more than the prior year's budget plus a factor that is a combined index of the population growth for that county plus the real rate of regional inflation.

So, for example if the index was a combined 5.5%, then county spending from ad valorem funds could not be increased more than 5.5%. If property values rose higher than that percentage, then there would have to be a roll back of the millage rate. To help equalize the apparent inequities caused by Save our Homes, the roll back would be applied to non-homestead property unless the increase were less than 3%, in which event the roll back would apply to all property owners. There would be an emergency override provision requiring a super majority vote of the local governing body to override the LOTSSA cap.

**REP. AMBLER'S PLAN: THE FLORIDA PROPERTY INSURANCE RATE STABILIZATION ACT
[PIRSA]**

THE PROBLEM:

As you all know the No.1 issue on most voters' minds is how to get control over the astronomical increases in property insurance--especially since there is no end to the increases in sight. I believe one of the problems with our current approach is that we are constantly looking at the issue retrospectively, i.e. how much were the losses last year and how much did we collect in premium. Insurance is the business of valuing risk over time. But, it does not operate in a free market environment. Home owners and business owner's are compelled to purchase insurance in order to finance property through a lender. It is therefore in the context of a captive market, that the insurance industry sells its product. It can not be evaluated in a vacuum of looking at each year's loss experience in isolation, since market share is guaranteed. This is a problem that must have a prospective long term approach to stabilizing market rates by smoothing out the peaks (profits) and valleys (losses) over a longer time horizon.

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From my observations and experience with this issue, there appear to be two major cost drivers affecting the increases in rates: 1) the increasingly high cost and lack of availability of reinsurance--a situation which seems to be getting worse with each named storm; and 2) the increasingly high cost of repair/replacement materials and supplies (and an associated higher cost for labor because of difficulties in scheduling crews due to the sporadic and unpredictable availability of the materials and supplies). Based on these underlying assumptions, I have been discussing an idea with many of you since February. It is my attempt at trying to come up with a workable solution to this crisis. I have also posted this idea on the 100 ideas.org web site to elicit public comment. At the very least it is an invitation to have a constructive dialog on this topic that cannot wait any longer. I hope you will view this idea with an open mind and provide me with your input and suggestions. Don't be a critic unless you are prepared to offer suggestions for improvement or your own solution. Now is the time to be proactive, before the next storm hits.

THE PROPOSED SOLUTION:

This shall be known as the Florida Property Insurance Rate Stabilization Act (PIRSA). It is an idea which involves a public private partnership between the State of Florida and the private insurance industry. Under the plan, the State will cover excess losses as a public re-insurer for individual wind-damage claims filed through a private insurer over 200,000; additionally, the State will pay all excess losses for a private insurer when the total aggregate of wind damage claims for that insurer exceeds one billion per named storm. [The caps listed are for illustration purposes and would be adjusted based on actuarially sound limits based on the size of the individual insurance carrier's rate base and risk pool] All insured customers with these carriers will be required to sign a form at the time of application or renewal that requires the insured to assign their FEMA claim rights to the state of Florida for all wind damage losses paid to the insured by the State. This will allow the State to bundle all claims files for the claims paid under this plan and receive a lump sum reimbursement back to the State from FEMA. It also eliminates fraudulent, duplicate and competing claims by the insured property owners with FEMA.

The State reinsurance program will initially piggy back on the CAT fund which has already been established (and has several billion in reserves) and it will be supplemented permanently with the existing 6th cent of the

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Florida sales tax which shall be earmarked for that purpose. [This portion of the plan will require a voter constitutional amendment to require that one cent of the State's sales tax will be dedicated to the SuperCAT Fund] The reason for this permanent funding mechanism is to eliminate the current retroactive assessment model for replenishing the CAT fund by assessing policy holders each year for the prior year's deficit (difference between premiums collected and claims paid) The dedicated funding through a single cent of sales tax creates a new SuperCAT fund which is a bondable funding source. Current estimates are that a single penny of sales tax generates 3 to 4 billion dollars per year in revenue. That money however is bondable to over 100 billion in the event of a catastrophic loss, e.g., Category 5 hurricane hitting Tampa Bay].

When the SuperCAT Fund reaches 20 billion dollars, up to 20% of the funds will be authorized to build 10 supply/storage depots regionally around the state. Each facility would consist of one or more buildings built on public lands or donated lands that will consist of several hundred thousand square feet of climate-controlled space each and hardened to withstand a direct hit by a Category 5 hurricane. The State would purchase building materials and supplies, like roofing tiles, ply wood, sheet rock, cement, etc. and stock pile them in these depots along with heavy machinery, like back hoes and loaders. Short term water, dry food and gas supplies could be stored there too for rapid deployment by first responders. After a named storm, approved licensed building contractors who have received a valid work order from an insurance carrier for repair in connection with a wind damage claim will have immediate and exclusive access to the depots for repair and replacement materials. The insurance carrier will be invoiced by the State for the cost of the materials taken by their contractors, but the cost will be at the original cost of the materials to the State instead of current market price. The insurance carrier will also be charged an additional 3% over this cost for administration and inventory control costs incurred by the State. The State will then replenish these materials from the reimbursement dollars collected from the insurance companies, monies paid by FEMA, and, if necessary, from the SuperCat Fund.

To participate under this program, an insurance carrier that offers other insurance products in this state like auto, fire, casualty would have to offer wind storm coverage as well. National carriers that offer wind coverage in other states would not be able to do business as a separate Florida insurance entity if they chose to participate in this program. Under this plan, Citizens insurance would be phased out as private insurers reentered the market. The goal would be to eliminate Citizens Insurance within 3 years. [Note: that through the stabilization

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of property insurance rates, there should be a corresponding resurgence of property sales, and a more robust business economy. Property owners will have more disposable income to spend if they are not having to pay huge increases in property insurance premiums. The net result should be a sufficient economic stimulus that the increase in state-wide transactions subject to the sales tax at 5 cents, will make up for the revenue from the one cent exclusively allocated under PIRSA to the SuperCAT Fund that was part of the general revenue budget.]

Sincerely,

A handwritten signature in black ink that reads "Kevin C. Ambler". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Kevin C. Ambler

KCA/jml

**Representative
Tom Anderson**

**Insurance Premium Relief
Proposed Grant Program
Representative Tom Anderson**

GRANT ELIGIBILITY:

1. Grants will be limited to homestead residences of legal Florida residents that have been the applicant's homestead property for at least two years.
2. An applicant's annual income must not exceed "moderate income" as defined in affordable housing statute, s. 420.602(9), Florida Statutes.¹
3. The current fair market value of the home, as determined by property appraiser on TRIM notices, may not exceed the lesser of the median sales price of homes in the county, or \$300,000, as of _____.
4. The latest documented annual increase in insurance premium, due to price and not due to changes in coverage or deductible or other policy changes, must be greater than or equal to one percent of the applicant's annual income. (E.g., premium annual increase amount must be at least \$250 for an applicant with annual income of \$25,000.)

GRANT AMOUNTS:

5. Grants will be 50 percent of the annual increase in the premium amount, but not to exceed \$1,000.
6. Grant amount (50 percent of premium increase amount) must be at least \$10 in order for an applicant to receive any reimbursement.
7. Grants will be awarded in each county to the extent funds are available. Grant applications will be ranked according to need and grant funds awarded to the greatest-need applicants first, until all grant funds are exhausted. (See Grant Administration details below.)

ALLOCATION OF FUNDS TO COUNTIES:

8. Minimum funds to be appropriated for the grant program will be \$500,000,000 from the state housing trust funds (from the surplus/unappropriated cash balances projected for Fiscal Year 2006-2007). Funds will be placed into reserve until the release of the funds is approved by the Legislative Budget Commission (LBC).
9. Appropriated funds will be allocated to all 67 Florida counties. All counties will receive some pro-rata amount based on the number of homestead properties in the county.
10. Greater priority in the county allocation methodology will be given to counties where insurance premium percentage increases have been the greatest.²

GRANT ADMINISTRATION:

11. Grant program will be administered by the county agencies that currently administer the State Housing Initiative Program (SHIP) affordable housing funds.

¹ "Moderate-income persons" means one or more natural persons or a family, the total annual adjusted gross household income of which is less than 120 percent of the median annual adjusted gross income for households within the state, or 120 percent of the median annual adjusted gross income for households within the metropolitan statistical area (MSA) or, if not within an MSA, within the county in which the household is located, whichever is greater.

² Allocation methodology for giving greater priority to counties with higher percentage increases in insurance premiums TBD. *Perhaps a weighting factor to be applied to the number of homestead properties in the county, etc.*

12. Grant application deadline set at _____.
13. County agencies must rank all grant applications received by the deadline on the basis of need. Each county agency must formulate detailed plans to rank applications on the basis of need and to administer the program in their county, and must submit those plans to the Florida Housing Finance Corporation (FHFC) for approval.
14. The FHFC must forward approved county plans, along with the FHFC's plan to administer the program at the state level, to the Legislative Budget Commission (LBC). The LBC will be authorized to approve the release of appropriated funds.
15. County agencies may use up to 5 percent of allocated funds for administrative costs of the program.³
16. Administrative costs must include public awareness & education activities to notify residents of the grant program's availability.
17. Checks will be made payable to the grant applicant.⁴

³ If county agencies are allowed to use a percentage of their SHIP funding allocations for administrative costs, the same percentage will be used for this grant program as well.

⁴ Further research is needed to determine whether the grants may be declared tax exempt for federal income purposes, or whether grant recipients will need to be issued 1099 forms by the state.

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A bill to be entitled

An act relating to insurance premiums; creating the Insurance Premium Relief Grant Program for the purpose of mitigating steep increases in premiums on certain homestead properties; providing for the administration of the program; providing prerequisites to receiving a grant; providing limitations on the amount of a grant; providing for the distribution of grant moneys to counties; providing an application deadline; providing procedures to be followed by county agencies, the Florida Housing Finance Corporation, and the Legislative Budget Commission; providing for administrative costs; requiring that checks be made payable to grant recipients; allowing the corporation to reallocate grant moneys in specified circumstances; providing appropriations; providing an effective date.

Be It Enacted by the Legislature of the State of Florida:

Section 1. Insurance Premium Relief Grant Program; creation; purpose; qualifications; procedures.--

(1) There is created the Insurance Premium Relief Grant Program. The purpose of the program is to provide to qualifying residents of this state grants that will mitigate steep increases in the amount of premiums due on homestead property. The county agencies that currently administer funds for affordable housing under the State Housing Initiatives Partnership Program shall administer this program.

(2) Prerequisites to receiving a grant are:

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30 (a) The applicant must be a resident of this state.

31 (b) The applicant's annual income may not exceed that of
32 "moderate-income persons" as defined in s. 420.602(9), Florida
33 Statutes.

34 (c) The property for which the premium-relief grant is
35 sought must be the applicant's homestead and must have been his
36 or her homestead for at least 2 years immediately preceding the
37 date of application.

38 (d) The current fair market value of the homestead, as
39 determined by the property appraiser and stated on the applicable
40 notice of proposed property taxes, may not exceed the lesser of
41 the median sales price of homes in the county as of the date of
42 application or \$300,000, whichever is less.

43 (e) The latest documented annual increase in the amount of
44 the insurance premium for the homestead property, which increase
45 is due to changes in the price for coverage and not to changes in
46 the types or amount of coverage or deductibles or other policy
47 changes, must equal at least 1 percent of the applicant's annual
48 income; for example, the amount of the increase in premium must
49 be at least \$250 for an applicant who has an annual income of
50 \$25,000.

51 (3) (a) The amount of each grant shall be 50 percent of the
52 annual increase in the amount of the premium, with a maximum
53 grant amount of \$1,000. If the amount of relief for which an
54 applicant qualifies is \$10 or less, the grant may not be awarded.

55 (b) Grants must be awarded in each county to the extent
56 that funds are available. Each county must receive a pro rata
57 amount of the appropriated funds. In allocating the grant money,
58 greater priority must be given to counties in which the

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percentages of increase in insurance premiums are the highest.
Grant funds must be distributed to the various counties in
accordance with a formula that incorporates the percentage of
increase in the insurance premiums for each county and the number
of homestead properties in each county.

(4) (a) An applicant for a grant under this program must
submit the application on or before February 1, 2007.

(b) The county agency must rank all grant applications that
are received by the deadline on the basis of need. Each county
agency must formulate detailed plans for ranking applications on
the basis of need and for administering the program in that
county and must submit those plans to the Florida Housing Finance
Corporation for approval.

(c) The corporation must forward approved county plans,
together with the corporation's plan for administering the
program at the state level, to the Legislative Budget Commission.
The commission must approve the release of appropriated funds.

(d) Each county agency may retain for administrative costs
up to 5 percent of the funds allocated to that county for the
program. Each county agency must provide adequate public
awareness and education activities to notify county residents of
the availability of the grant program.

(e) Checks for the grant moneys must be made payable to the
recipients of the grants.

(f) Funds distributed to counties which are not committed
to specific grants or allocated for administrative costs by June
1, 2007, must be returned to the Florida Housing Finance
Corporation for reallocation to counties where there remains
unmet need for the grant program. The Florida Housing Finance

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88 Corporation is granted budget authority sufficient to disburse
89 the reallocated funds to counties.

90 (5) Moneys appropriated for the grant program must be
91 placed in unbudgeted reserve until the release of the funds is
92 approved by the Legislative Budget Commission.

93 Section 2. The sums of \$355 million from the Local
94 Government Housing Trust Fund and \$145 million from the State
95 Housing Trust Fund are appropriated to the Florida Housing
96 Finance Corporation for the purpose of funding the Insurance
97 Premium Relief Grant Program during the 2006-2007 fiscal year.

98 Section 3. This act shall take effect upon becoming a law.

**Representative
Jennifer Carroll**

PROPOSED SUGGESTIONS TO IMPROVE THE DRAFT LEGISLATION ON HURRICANE PREPAREDNESS AND INSURANCE

Representative Jennifer Carroll

District 13

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Lines 17-22

“Certified Inspectors...”

It has been difficult for insurance agents to locate certified inspectors. Many inspectors are afraid of the liability and the ones that will take a chance they are backed up with request and the cost is expensive. This cost will be reverted to the consumer. You will be adding another layer of expense for the consumer. I would suggest if we move forward with this suggestion, a list by county should be provided and cost of their service is also listed. Cost of paying an inspector does not usually offset savings of discount.

Pages 38-39-41

Lines 28-30

“Mitigation discounts...”

They are detailed and complex. This is a difficult subject matter for agents to explain to customers. To improve this discount policy, I would suggest a statewide uniform way of defining the hip roof mitigating discount. Some companies require 50% more of each side be hip, some require 50% or more of the total be hip, and others require 100% of every side must be hip. Inform customers about the discounts by way of a brochure or insert in their renewals with specifications and illustration of what the requirements for discounts are. The illustration could be a picture of what shutters look like that will qualify or what the roof nails must look like, etc. Let the consumer know that if this is done they may qualify for the discount and they will need to contact their agent for more information. In our current system, proof and documentation required to prove the mitigations is sometimes difficult, time consuming, and costly and are not worth the hassle to get the discount.

Page 47

Lines 17-19

Suggest finding other sources of funding besides insurance companies and policy holders.

Page 211

Line 31

d) “The dollar amount of the agents comment” – I do not think that the policy holder needs to know this amount. The amount an agent is paid (usually 6-12%) is at the discretion of the insurance company they are contracted with. The agent does not negotiate their rate. Policy holders have no right to know the commission rates being paid. This is not a not-for-profit business. We are operating in a free market. The policy holder has a right to know about state regulated or imposed taxes and fees but not an agent’s commission. This would be like asking retailers to label the mark-up of each product that it sells. Would we then impose this regulation to health insurance agents or car insurance agents?

Page 213 Line 16 and
Page 227 Line 23
Some comments above apply.

Page 218
Lines 20-29

“Out of pocket expenses”

Suggest specifying the exact dollar amount of these expenses on the policy. Many consumers feel that 2% wind damage is 2% of their deductible not 2% of the value of their home.

General Comments:

CITIZENS NEED TO PROVIDE A PAYMENT PLAN.

The alternative is using premium finance companies that charge high rates of interest. I would suggest at least a quarterly pay plan perhaps with a \$25 to \$50 payment fee per payment.

CITIZEN’S comments to agents. Instead of a flat \$100.00 fee at renewals as I suggest, perhaps a lower commission rate for new business and renewals (i.e., 6-8%). Many times an agent has to travel to the property, take photos, and do much more to get information for the establishing the policy; and for evaluating large properties \$100 would not cover their cost to do the work.

Finally: Condominium and Town home Associations are getting hit with very high rates as they fall within a “business” category. We are charging them a business rate as if they were a hospital or large corporation.

Getting certified appraisals as required by CITIZENS has been costly. I suggest having a replacement cost calculation program that the agent can use (much like they do for single homes). Finding these appraisers has also been difficult for agents. Most contractors don’t have the time nor do they want to accept the liability. It is difficult for the association to come up with payment in full because they are huge premiums. The alternative is to finance at high interest rates.

I would suggest treating condo associations more like homeowners when it comes to excluding wind. If they are inland, wind should be included in a standard policy and CITIZENS should not be the only alternative. Since it is “commercial,” wind is usually excluded.

**Representative
Larry Cretul**

WHITE PAPER: Florida's Property Insurance Crisis

Building Code Education & Mitigation Program Essential to Solution

Florida's escalating property insurance crisis demands an approach that produces long-term solutions that fit broad market needs and address the concerns of consumers, businesses, industry and government.

In the book **100 Innovative Ideas for Florida's Future**, there are 10 "ideas" directly related to affordable homeowners insurance. Ideas 54, 55, 56, 57, and 60 (see excerpts below) are founded on the assumption that there is absolute compliance with the Florida Building Code.

However, the only way to ensure building code compliance is to provide consistency within Florida's building codes system by educating and training the industries charged with complying with Florida's Building Code. Legislation can create an on-going mechanism for a well-established working relationship between consumers, licensees subject to the Florida Building Code as well as the Florida Building Commission.

Additional fortification and strengthening of structures – thus reducing homeowner insurance premiums – can occur when structures are built back stronger after a disaster. Institutionalizing the construction industries through the Building A Safer Florida, Inc. and the Disaster Contractor Network into the emergency management system, will provide consumers with greater mitigation information and financial resources.

Excerpt from: 100 Innovative Ideas for Florida's Future

Affordable Homeowners' Insurance for Florida

54. Increase funding of home inspections and grants to upgrade homes to better withstand hurricanes by creating a recurring source of funding.

55. Ensure all insurance companies provide appropriate, easily understood credits or discounts to homeowners engaging in hurricane mitigation.

56. Consider adopting a uniform grading system for evaluating the hurricane strength of homes, allowing homeowners to become insured by the private market or to take full and appropriate advantage of the measures undertaken to fortify their homes.

57. Adopt a uniform statewide building code.

60. Permit policyholders to reduce their hurricane deductible if they implement meaningful and verifiable mitigation measures.

How to Reduce Property Risk:

For meaningful long-term reform, building code education and an effective mitigation program which helps build back better after disasters must be part of the overall solution. Reducing property risk in Florida's building environment can be accomplished with:

1. Increased new construction compliance with the Florida Building Code, and
2. Building back better after a disaster.

History of Structure Performance:

The hurricane seasons of 2004 and 2005 severely tested the strength and effectiveness of Florida's building code requirements. According to national studies and reports, structures built according to the current Florida Building Code stood up well during the storms. The Federal Emergency Management Agency (FEMA) credited Florida's stringent building codes with reducing property damage and saving lives during Hurricane Charlie.

In 1992, Hurricane Andrew showed Florida that many structures destroyed were not built according to the building codes. Since that time, through the efforts of the construction industry, building officials have become licensed and continuing education requirements have been imposed on all licensees involved in Florida's construction industry. Prior to Hurricane Andrew there were as many as 400 different municipal building codes in Florida. To standardize and strengthen the code, Florida now operates under one statewide building code – the Florida Building Code.

The Governor's Building Codes Study Commission found that "to be effective, a **Building Codes System** must not only address the issues presented by too many codes and inadequate and inconsistent administration of those codes, but must address the issues of weak and inadequate compliance with those codes resulting from a need for more education, training and discipline within all categories of codes users and the codes system."

Increased Compliance with Florida's Building Code:

While the last several years have proven the success of Florida's Building Code, the focus of Florida's endeavors should remain on the **building codes system**. The system of educating and training the various industries charged with code compliance is imperative.

Fortunately, Florida has established the necessary institutions needed to increase code compliance. These include:

- The Florida Building Commission,
- Various industry licensing boards, and
- Industry coordination through Building A Safer Florida, Inc. (BASF)

One of the key elements of an effective building code is the on-going education of the construction industry and its various professions. Recognizing the need for an industry-wide response to the education needs, Florida's construction-related professional and trade associations formed a not-for-profit corporation in 2001 – Building A Safer Florida, Inc. (BASF).

BASF consists of 21 member organizations representing all licensees required to comply with the Florida Unified Building Code. For the last three years, BASF has contracted with the Department of Community Affairs to provide education on the code and dissemination of Florida Building Commission information to the construction industry. This outreach to licensees and collaboration on needed education to encourage compliance and best practices for design and construction under the Florida Building Code has been extremely effective. (A list BASF members and partners appear on page 4.)

RECOMMENDATION: To increase compliance with the Florida Building Code:

1. **Develop legislation that will create an on-going mechanism for a well-established working relationship between consumers, licensees subject (BASF) to the Florida Building Code, and the Florida Building Commission in order to make sure that;**
 - a. **The Florida Building Code actually performs as intended;**
 - b. **Coordination between property owners, the design and construction industries, and all levels of government exists at the best possible levels before and after a disaster;**
 - c. **Critical steps to mitigate future damages from storms and other disasters are possible and ways to achieve this are made available;**
 - d. **Meaningful notices, information, answers, and education are provided to licensees required to comply (architects, engineers, construction contractors, landscape architects, building officials, and interior designers ;)**
 - e. **Practical and useful information on prudent and suitable methods of design and construction are available to all of Florida's consumers; and**
 - f. **Outreach to the industry through BASF. Inc. of mitigation programs and opportunities.**

The goal is to ensure that all Florida licensees required to operate under the Florida Building Code have a clear and practical understanding of requirements and obligations and a source for information, inquiries, and assistance on matters relating to design and construction in Florida.

Building Back Better After Disasters:

A great opportunity exists following the destructive aftermath of a natural disaster – the ability to build Florida’s communities back better. However, information and education of those industries involved in this effort must be in place prior to the event. The key will be the dissemination of mitigation opportunities to contractors and home owners to educate them of these opportunities.

The not-for-profit Disaster Contractor Network (DCN) was established four years ago as a tool to facilitate rebuilding efforts after a natural disaster. Four trade groups, Associated Builders & Contractors of Florida, Inc. Associated General Contractors, the Florida Home Builders Association, and the Florida Roofing & Sheet Metal and Air Conditioning Contractors Association, in partnership with Florida State University established www.dcnonline.org. This web site acts as a clearinghouse for contractors who are able to perform repairs, suppliers who have needed building materials and consumers who need construction repairs after a hurricane.

While the DCN has been in existence for four years, it was only first activated during the 2005 hurricane season. FEMA activated DCN, and space was provided in the Emergency Operation Center for a network liaison. During this time, the DCN received:

- Over 140,000 website hits during the 2005 hurricane season,
- More than 10,000 contractors and suppliers posted repair and rebuild service availability, and
- Forty percent of consumers who visited the site were able to locate contractors to perform repairs.

FEMA was extremely pleased with the performance of DCN, and President George Bush praised the DCN during a 2005 speech and called it “a model that other states should implement.” FEMA has recognized the value of DCN and has expanded it to several other states.

While the DCN's performance exceeded expectations, the concept needs to be expanded and improved. Regular funding needs to be provided to stabilize the service DCN provides. The goal is to expand its applicability to all involved in post-disaster design and construction and strengthen the usefulness of this network for consumers and government.

RECOMMENDATION: To build back safer after disasters:

- **Further institutionalize the construction industries through the BASF, Inc. and the Disaster Contactor Network into the emergency management system;**
- **Develop relationships between the above groups and the insurance companies to distribute mitigation information; and**
- **Assure financial resources are provided.**

Members of the Building A Safer Florida, Inc.:

- Alarm Association of Florida, Inc.
- American Society of Civil Engineers
- Associated Builders and Contractors of Florida, Inc.
- Associated General Contractors Council
- Building Officials Association of Florida
- Florida Air Conditioning Contractors Association
- Florida Association of the American Institute of Architects
- Florida Association of Electrical Contractors
- Florida Association of Landscape Architects
- Florida Association of Plumbing, Heating, Cooling Contractors
- Florida Engineering Society
- Florida Home Builders Association
- Florida Refrigeration and Air Conditioning Contractors Association
- Florida Roofing, Sheet Metal and Air Conditioning Contractors Association
- Florida Solar Energy Industries Association
- Florida Wall & Ceiling Contractors Association
- Interior Design Association of Florida
- National Electrical Contractors Association
- Florida Swimming Pool Association
- Underground Utility Contractors of Florida
- United Pool & Spa Association

Partner Members of the Building A Safer Florida, Inc.:

- University of Florida, Rinker School of Construction
- University of Florida, Energy Extension Service
- Florida State University
- Disaster Contractors Network
- Florida Department of Community Affairs
- Information Systems of Florida, Inc.

**Representative
Don Davis**

Suggestions to help solve the property insurance crisis

Representative Don Davis

First of all, I think we should consider making windstorm coverage a federal program, similar to the federal flood insurance program. The Federal government through FEMA pays for a large portion of the damage and losses created by the hurricanes suffered in Florida, Mississippi, Louisiana and other southern states, so it seems natural to make windstorm coverage a federal program.

The best answer to the lack of available property insurance or the astronomical premiums being charged is to attract more insurance companies to the marketplace. This can be accomplished by increasing our catastrophe fund, strengthening our reinsurance market, and giving the insurance companies more flexibility in rate settings.

Citizens who chose to build or purchase a home on the ocean front, on a river, or in a wind prone area should understand that their homes are in a higher risk area for hurricanes or wind damage and consequently, they will have to pay a higher premium for their property insurance.

Perhaps in a special session we can find some additional funds in the budget which can be added to our catastrophe fund.

The most important thing we can do is to provide whatever incentives we can to attract more insurance companies to our property insurance market.

We must create competition to get the rates down, but we will have to offer the companies flexibility in setting their rates.

**Representative
Bill Galvano**

Florida House of Representatives

Representative Bill Galvano

District 68

Reply to:

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Bradenton, FL 34205
(941) 708-4968 Fax: (941) 708-4970
SC 516-0100 SC Fax 516-0102
- o 214 House Office Building
Tallahassee, Florida 32399-1300
(850) 488-4086 Fax: (850) 413-8991

Committees:

Health & Families Council
Chairman, Future of Florida Families
Education Council
Vice Chairman, Choice and Innovation
Commerce Council
Committee on Insurance
Health Care Appropriations Committee

Select Committee to Protect Private Property Rights

May 23, 2006

Mr. Kevin McCarty, Commissioner
Office of Insurance Regulation
Florida Department of Financial Services
200 E. Gaines St.
Tallahassee, FL 32399

Dear Commissioner McCarty,

I write to request your assistance with regard to the property insurance market in Florida.

You are no doubt familiar with the high-risk or windstorm pool maintained by Citizens Property Insurance Corporation. You probably know that the coverage provided by Citizens is haphazard, at best. (I have enclosed a coverage map from Citizens for your review.) This results from the manner in which property was added to the eligibility pool; some areas were covered in statute; some were added via a petition process, which no longer exists; and still others were added piecemeal through the amendment process as the years wore on from the early 1970s. The result of this patchwork process is that we have a windstorm coverage program of last resort that simply is not a resort at all for some residents of Florida's barrier islands and coastal communities, who take the first damage and bear the brunt of windstorm damage in hurricanes. In other words, there is a lack of nexus between the need and the benefit conferred by government.

As a short-term solution to this problem, you may know that I pursued an amendment to HB 7225/SB 1980 that would have provided stopgap coverage for such areas. The amendment would have made barrier islands and areas within 2000 feet of the coast eligible for windstorm coverage under Citizens until the results of a task force study were released. The task force was charged with determining standard eligibility ratings for Citizens' windstorm coverage and making recommendations, based on scientific data, as to which areas should truly be offered windstorm coverage through Florida's insurer of last resort. Unfortunately, the amendment was defeated by one vote, and the task force was not included

in the final property and insurance bill that passed on the final day of session. These were two of the reasons that I voted against that bill.

Those oversights in SB 1980 constitute a missed opportunity for the Legislature to correct inequities in the current system. As such, we are left with a situation in Florida where many vulnerable areas are unable to procure windstorm coverage for commercial properties. I have spoken with many business owners on Anna Maria Island, which is in my district; they can tell you more than you would like to know about the lack of availability of windstorm coverage for their properties. Unfortunately, as I have found from talking with other people in similar circumstances throughout the state, they are not alone. This problem has reached epidemic proportions, and I cannot express to you in stronger terms the need to create some sort of safety net for those affected by it.

I write to you today in light of the above. I understand that 627.351(5) F.S. authorizes the commission to adopt by rule a joint underwriting plan that would allow insurers to write property insurance "to persons with risks ... who are in good faith entitled to, but are unable to, obtain such property or casualty insurance coverage ... through the voluntary market." Furthermore, I understand that this section was used to create a JUA after Hurricane Andrew to provide coverage for Floridians until private capital returned to the insurance market in Florida.

I believe that we are facing a similar crisis in our state today with regard to windstorm coverage. It is simply unconscionable that we have in Citizens an insurer that functions as a safety net for some Floridians and not others. However, knowing that the Legislature will not have an opportunity to address those inequities until the 2007 session, *I ask you to seriously investigate the possibility of immediately creating a joint underwriting association for windstorm coverage in Florida.* I ask that you undertake this investigation and make relevant decisions, based on the realities of the windstorm coverage market in Florida as it stands today, with all due haste and before June 1, when hurricane season begins.

No doubt you saw NOAA's hurricane predictions for the 2006 season when they were released yesterday. It would be reckless to have a vaccine for an illness and not share it with others. Likewise, it would be irresponsible to have the ability to create a true safety net for vulnerable Floridians and not offer them that protection.

I am available to you at any time to discuss this issue further. I trust that your investigation will show you the realities of the windstorm market in Florida today; that information, coupled with the current Citizens windstorm coverage map, should be all that is necessary to demonstrate to you the gravity of this problem and the timeliness with which it must be addressed.

I stand ready to assist you in any way possible and thank you in advance for your responsible action on behalf of the people of Florida.

Sincerely,



Bill Galvano

cc: The Honorable Jeb Bush, Governor
The Honorable Tom Lee, President of the Florida Senate
The Honorable Allan Bense, Speaker of the Florida House of Representatives

July 19, 2006

The Honorable Jeb Bush, Governor
The State of Florida
The Capitol
400 South Monroe Street
Tallahassee, FL 32399

The Honorable Tom Lee
President of the Senate
409 The Capitol
400 South Monroe Street
Tallahassee, FL 32399-0001

The Honorable Allan Bense
Speaker of the Florida House
420 The capitol
400 South Monroe Street
Tallahassee, FL 32399-0001

Dear Governor Bush, President Lee, and Speaker Bense,

On May 23, 2006 I wrote Insurance Regulation Commissioner Kevin McCarty regarding the availability of windstorm coverage to commercial property owners in Florida. A copy of the letter is enclosed. This letter follows his response which is also enclosed.

In his response, Commissioner McCarty states that there are no current plans to create a Florida Commercial Property Joint Underwriting Association (FCPJUA) as previously reported by the Gannett News Service; however, he does not detail whether there are legal obstacles to doing so. I must assume from his response that no such obstacles exist.

In the letter, Commissioner McCarty details a plan his office will undertake "to ascertain the scope of the situation" with regard to windstorm coverage availability. I doubt that such a study is necessary to establish that there is a dearth of private coverage for commercial properties in Florida. Commissioner McCarty mentions in his letter the contacts his own staff has received from various legislators, representatives of the governor's office, and insurance agents on behalf of business owners throughout the state, and he says that "the Office is investigating every option available under Florida law to identify a possible solution to what appears to be a growing situation in the commercial property insurance market." There is also a good deal of anecdotal evidence in the media and through industry circles about the crisis.

In any event, Commissioner McCarty's plan to investigate the commercial windstorm availability market includes the development, distribution, and analysis of a survey to be constructed in concert with Enterprise Florida and other organizations. According to the letter, the Office of Insurance Regulation may also hold a "series of public hearings around the state... to provide comments and suggestions to address the situation."

I welcome the OIR's plan to thoroughly scrutinize the commercial windstorm market, because I believe that such scrutiny is long overdue. However, Commissioner McCarty's plan is

inadequate, because it does not lend itself to the sort of immediate intervention that is warranted in Florida's current commercial windstorm market and property market in general. We are now two months into hurricane season; one supposes that it would be several months, at the earliest, before OIR would be able to gather the information from the survey and take any action to alleviate the problem. This would most likely take us beyond the end of this year's hurricane season. It provides no help, or hope of help, to those currently facing the next four months without windstorm coverage.

Therefore, while I believe that Commissioner McCarty's intent is pure and his plan a good one to gather information on the market forces and explore potential long-term solutions that are required, I do not believe that his plan provides the protections needed to Florida's business owners through the rest of this hurricane season. I renew my call for the creation of a joint underwriting association to deal solely and specifically with this market.

As an alternative to the JUA, it seems we must legislatively provide a temporary expansion of the Citizens' windstorm high risk eligibility areas. This is what I tried to accomplish with amendments to HB 7225. The expansion could be tailored to commercial property in coastal counties and sunset eligibility with the end of hurricane season. This would give the OIR time to gather its data and provide a coverage options for those outside of the current eligibility zone. Indeed, I recognize that this would almost certainly constitute an expansion of Citizens, and I understand that the overall goal of SB 1980 was to encourage depopulation of Citizens and mitigate the state's exposure to losses. However, I also know that the overall purpose of Citizens is to provide a safety net for those who cannot procure insurance coverage in the private market, and I know that this situation perfectly fits the purpose for which Citizens was created.

In addition to the high risk eligibility zone, we must address the growing lack of affordable property coverage including, but not limited to, homeowners' property insurance and builders risk insurance before further negative impacts on our state.

We must take immediate steps to provide a true safety net for this state's people and their property. In that time is of the essence and we are in a crisis, I respectfully request that legislative solution not wait until next year but be addressed by special session of the legislature.

Sincerely,

Bill Galvano

C.C. Chief Financial Officer Tom Gallagher
Representative Michael Grant

Amendment No. (for drafter's use only)

CHAMBER ACTION

Senate

House

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Representative(s) Galvano offered the following:

Amendment to Amendment (074037) (with directory and title amendments)

Remove lines 1249-1274 and insert:

(C) ~~(III)~~ A high-risk account for personal residential policies and commercial residential ~~and commercial nonresidential~~ property policies issued by the corporation or transferred to the corporation that provide coverage for the peril of wind on risks that are located in areas eligible for coverage in the Florida Windstorm Underwriting Association as those areas were defined on January 1, 2002. The high-risk account must also include quota share primary insurance under subparagraph (c)2. The area eligible for coverage under the high-risk account also includes the area within Port Canaveral, which is bordered on the south by the City of Cape Canaveral, bordered on the west by the Banana River, and bordered on the

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Amendment No. (for drafter's use only)

18 north by Federal Government property, the entire portion of any
19 barrier island, and any coastal area where no barrier island
20 exists and the coastal area was not eligible for the high-risk
21 account as of January 1, 2006, and after such date any area up
22 to and including 2,000 feet from the coast. The office may
23 remove territory from the area eligible for wind-only and quota
24 share coverage if, after a public hearing, the office finds that
25 authorized insurers in the voluntary market are willing and able
26 to write sufficient amounts of personal and commercial
27 residential coverage for all perils in the territory, including
28 coverage for the peril of wind, such that risks covered by wind-
29 only policies in the removed territory could be issued a policy
30 by the corporation in either the personal lines or commercial
31 lines account without a significant increase in the
32 corporation's probable maximum loss in such account. Removal of
33 territory from the area eligible for wind-only or quota share
34 coverage does not alter the assignment of wind coverage written
35 in such areas to the high-risk account. Eligibility for the
36 high-risk account for barrier islands and any area up to and
37 including 2,000 feet from the coast provided for by this sub-sub-
38 sub-subparagraph becomes effective upon the amendment to this
39 sub-sub-sub-subparagraph becoming a law and expires on December
40 1, 2006.

41
42
43 ===== T I T L E A M E N D M E N T =====

44 Remove line 4623 and insert:
45 property; providing a definition; providing for additional areas
46 to be included in the high-risk account; providing for

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Amendment No. (for drafter's use only)

47 eligibility for inclusion; providing an expiration date;
48 providing for an additional
49

111401

4/27/2006 10:08:19 AM

**Representative
Dan Gelber**

Florida House of Representative
Conference on Property Insurance

House Democratic Caucus
Presentation of Ideas

Homeowners Protection Act

- Florida Hurricane Self Insurance Fund
- Immediate Rate Rollbacks
- Enhancing Reinsurance Market

Mitigation Enhancements

- Adopt statewide uniform building code
- Enhance home inspections and windstorm certifications
- Enhance mitigation funding through earmarked sales tax revenues

Consumer Protections

- Repeal Use & File Rate Process
- Repeal use of Arbitration
- Require Insurance Companies to Sign Oaths about financial status

Reforming Citizens Property Insurance Corporation

- Immediate repeal of SB 1980 provisions requiring Citizens to include cost of reinsurance as part of rate setting
- Place a sunset of 2010 for all High Risk Accounts (HRA's)
- Repeal state law provision requiring Citizens to charge the highest rates in the state

Florida House of Representative **Conference on Property Insurance**

Creation of the Florida Hurricane Self Insurance Fund

- Reform the Florida Hurricane Catastrophe Fund (CAT Fund) so that Florida residents and businesses would pool a portion of their existing insurance premiums to drastically reduce the cost of insurance. Instead of paying the total premium to insurance companies, who in turn buy very expensive backup insurance (also known as reinsurance) from big reinsurance companies, this part of the premium would go to the Hurricane Self Insurance Fund (HSIF).
- The HSIF would sell affordable backup hurricane insurance through insurance companies at a dramatically reduced cost, saving residents and businesses millions of dollars. Insurance companies would enter in a contractual agreement for the period of one year beginning April 1 and ending March 31 of the following year for a set coverage level for each homeowner's policy they write. For example, Allstate Floridian would include in their premium settings the cost of the HSIF coverage. The HSIF would set actuarially sound rates that would be collected and invested by the State Board of Administration on behalf of the HSIF.
- This year, for example, after ending the hurricane season with little activity, most of the premiums collected for windstorm for reinsurance and primary insurance will be spent and not available to pay for next year's claims. If this plan had been in existence, the premiums collected in 2006 would be in the fund, earning a return and available for future years.
- The Hurricane Self Insurance Fund would be run by the Governor and Cabinet and would cover 80% of the set coverage level of hurricane loss to residential and business property. The Governor and Cabinet would be authorized to adjust the coverage limit between \$50,000 and \$500,000 for residential property and between \$50,000 and \$2,000,000 for business property. The Governor and Cabinet would also be authorized to adjust the 80% coverage level between 70% and 90%. These adjustments would be made to allow for changing conditions in the insurance market and the amount of cash that is built up in the Hurricane Self Insurance Fund in years when damage is less than average.
- Insurance companies will sell the HSIF coverage level to policyholders and adjust claims. The public insurance from the Hurricane Self Insurance Fund would lower rates because companies would be purchasing less of the more expensive private reinsurance.
- In addition to premium revenue, the HSIF will have the ability to raise public capital through bonding capacity, similar to the current CAT Fund, have the ability to borrow from the Federal Government, or purchase reinsurance from a National or Regional Cat Fund (if one is created) or even the private market should it become affordable.
- A commission will be established to review the status of the HSIF three years following implementation to study the state of the insurance market and make recommendations to the Governor, Cabinet and Legislature if any changes should be adopted.

House Democratic Caucus

Presentation of Ideas

Mitigation Enhancements

A. Adopt statewide uniform building code

In support of the Governor's Property & Casualty Insurance Reform Committee, we recommend the adoption of a uniform statewide building code.

B. Enhance home inspections and windstorm certifications

In support of the Governor's Property & Casualty Insurance Reform Committee, we recommend continuing and expanding the My Safe Florida Home program that enables homeowners to have an inspection of their home and invest in retrofitting it based on recommendations of the inspector.

C. Enhance mitigation funding through earmarked sales tax revenues

In support of the Governor's Property & Casualty Insurance Reform Committee to continue to enhance mitigation efforts throughout the state, we recommend that the Mitigation Fund be increased to IRS standards and premium discounts would be mandated for mitigation efforts.

Consumer Protections

D. Repeal File & Use Rate Process

Insurance companies should be required to submit rate changes to OIR and based on OIR approval, insurers can then apply the rate changes. It should be in the best interest of the state to protect consumers while maintaining a fair and open process for insurers to submit rate change requests.

E. Repeal use of Arbitration

It is important to change the way insurance companies challenge rate setting decisions. In an effort to maintain consistency in state government, we should require insurance companies to follow the same procedure as everyone else when a disagreement arises with a state agency.

F. Require Insurance Companies to Sign Oaths about financial status

Require the Chief Executive Officer of each insurance company to sign, under oath, that his or her company's annual statements, rate change requests, and asset acquisitions forms are accurate.

Reforming Citizens Property Insurance Corporation

G. Immediate repeal of SB 1980 provisions requiring Citizens to include cost of reinsurance as part of rate setting.

This provision should immediately be repealed because it is causing Citizens to raise rates at unprecedented levels.

H. Repeal state law provision requiring Citizens to charge the highest rates in the state

This provision in state law should be repealed allowing Citizens to charge the appropriate premiums based on the property and not simply the highest rate because state law requires it.

I. Place a sunset of 2010 for all High Risk Accounts (HRAs)

Require the depopulation of Citizens Property Insurance Corporation for named hurricane windstorm damage within 3 years of implementation of the HSIF, except for special risk homes.

**Representative
Gayle Harrell**

Insurance Suggestions from District 81 Representative Gayle Harrell

1. Currently the residents of Martin County are not eligible to be in Citizens or the former windstorm pool. Many of our residents cannot purchase windstorm insurance and want to be able to be included in Citizens at whatever cost. I would propose that all residents of Florida be eligible to be included in the state-run insurer of last resort, since all residents ultimately bare the expense of it either through assessments or through general revenue earned through taxation.
2. Many of the residents of Martin and St. Lucie County would like the opportunity to eliminate windstorm or hurricane coverage from their policies. They feel that they have adequately protected their homes and do not want to be forced into purchasing windstorm insurance, unless they have a mortgage on the property and therefore the bank has a vested interest in seeing that the property is protected. I would suggest that a person be able to “opt out” of windstorm coverage within a 90 day per period of purchasing their insurance policy. Of course, should there be an outstanding policy on the existing property, that would take precedent over newly determined usage of the apartment.

Representative Adam Hasner

IDEAS FOR PROPERTY INSURANCE REFORM

Bold reform measures are needed to fix our current property insurance crisis and provide Florida's consumers with affordable property insurance rates.

In addressing this problem, we can not treat the symptoms - but we must attack the systemic problems that are currently plaguing Florida's homeowner's property insurance market and are causing the lack of availability and affordability of policies.

With Citizen's Insurance now the state's fastest growing homeowner property insurer, it is essential for the Legislature to establish the reforms necessary and correct the current trend for long term stability.

Those reforms begin with taking a new approach as to the state's role in the insurance market.

SHORT TERM MEASURES TO STIMULATE THE MARKET AND REDUCE TAXPAYER EXPOSURE

- Reduce the threshold for accessing the CAT Fund to \$3.2 Billion (per storm season) in order to lower the re-insurance costs for private insurers and to provide a reliable safety net to protect taxpayers in the event of a catastrophic event.

UNDERWRITING CHANGES FOR CITIZEN'S TO ENCOURAGE PRECAUTIONARY MEASURES / REDUCE FRAUD EXPOSURE

- Transform the underwriting guidelines for Citizen's Insurance to gradually reduce the state's exposure as a primary insurer and eliminate its competitive position with private insurers. For markets where private insurers will assume risk, Citizens will need to maintain pricing structures in excess of actuarial sound premiums to encourage carriers to re-enter the market and remove policies from Citizens over the next three years.
 - Establish options for Loss Based Deductible Program (i.e., the smaller the claim/the smaller the deductible; and the larger the claim/the larger the deductible). This will help reduce fraud by establishing a deductible program based on a percentage of the loss, not as a percentage of the total property value/coverage. Such a program discourages the inflation of damage appraisals and provides the resources for homeowners to make necessary repairs to prevent future damage.
 - Implement Florida's Certified Safe Roof Program
 - Establish a roof certification program based on the quality of construction, condition of structure and projected lifespan.
 - Approved experts will perform inspections and provide certifications.
 - Establish Zero Deductibles for Roofs.
 - Payment of roof claims based on the roof's depreciated value. (Example: A roof with a 20 year lifespan, as established by the certification process, is damaged in year 3 and the cost to replace the roof is 20,000, the insured would receive reimbursement on a pro rata basis based on actual cash value)

(Note: Citizen's, as the leading homeowners market in Florida, should set the pace for underwriting guidelines that will shape the future of the Florida Homeowner policy in the private market.)

Other Consumer Mitigation Measures

1. Provide continued State backed Low Interest Loans / Grant Programs for qualified individuals for Roof Repair and Replacement.
2. MySafeFloridaHome – Continue providing funding to encourage precautionary measures using general revenues and other potential revenue sources.
3. Landscape Mitigation – Provide statewide standards to establish “hurricane friendly” landscape regulations. Supersede local ordinances that penalize homeowners that responsibly choose to hurricane proof their landscape.
4. Require companies to establish minimum credits and publish their Premium Credits for mitigation available from private insurers. For example: a homeowner should know in advance what the premium saving will be for installing shutters, etc.

REGULATORY CHANGES TO PROVIDE LONG TERM STABILITY AND PREDICTABILITY

In order to ensure long term stability, Citizen’s must eliminate its role as a primary insurer and stop its direct competition with the private insurance market. Additionally, Citizens must establish itself as an excess market – a safety net for Florida Homeowner’s Insurance.

Citizens will gradually reduce the state’s role as the primary insurer of risk, which will protect taxpayers in the event of a major hurricane. The creation of a state funded excess insurance product administered by the primary carriers should increase the availability of affordable primary coverage through the private market. This state funded product will provide an appropriate safety net for taxpayers by allowing them to fully insure their property, while limiting the voluntary market’s exposure. This “layered risk” approach will provide additional protection at levels below the catastrophic fund on a per risk basis, potentially reducing the cost of reinsurance for the private market and passing that cost saving to the consumer. Currently, the reinsurance costs in the private market are driving the premiums to excessive levels. This design should help ease that burden.

This new product will provide property coverage only on a “broad perils” basis to allow for better pricing than “wind” only coverage. No liability coverage will be afforded under this design.

REDEFINING THE STATE'S ROLE IN INSURING PROPERTY RISKS

- Over the course of a reasonable number of years, reform Citizens to make it a carrier providing only limited products, as well as the Florida Excess Coverage Carrier described above. This transition period will allow for insureds to obtain coverage in alternative markets. In the event no market is available, then they will be able to obtain coverage through Citizens.
 - Preclude Citizens from writing new HO3 policies (comprehensive homeowner's policies including all risk coverage and liability) in order to limit state's involvement, increase competition and encourage private carriers to return to the market.
 - Citizens will only offer DP1 or DP2 (policies that cover basic perils including fire and wind) for those risks that can not otherwise be insured through the private market. This action will convert Citizen's into its intended purpose which is a True Market of Last Resort and a legitimate role for government (i.e., safety net). It is likely that the private market will respond and bring back the CPL policies that were once readily available in the market to protect an insured against liability losses.
 - After a reasonable number of years, all policies that remain with Citizens, originally written as HO3s, will be converted to a DP1 or DP2. This strategy will reduce state's exposure while allowing consumers and insurers to adjust to new regulatory environment. Insured's will receive 12 months notice before a policy conversion takes place.
 - Citizens as an authorized excess carrier, will provide insurance coverage over a specified primary limit (\$100,000/\$200,000/\$300,000), which will be negotiated with each private insurance carrier based on their financial ability. However, no carrier will be permitted to choose a limit below \$100,000.
 - Citizen's must charge actuarial sound premiums for its primary and excess products, as established by an independent board of experts under the purview of OIR.
- Additionally, the current and future operations of Citizen's must be transitioned to a private enterprise with the requisite experience and expertise in the insurance industry.
- Eliminate financial incentives for insurers "taking-out" policies from Citizen's.

REFORMS IN THE PRIVATE MARKET TO PROTECT CONSUMERS

- Eliminate the existing artificial and arbitrary wind only zones (such as East/West of I-95 line) and redefine actuarially and scientifically based Geographic Zones within the state. Additionally, eliminate the decisions to deny coverage based on an artificial characteristic such as date of construction.
- Require private insurance companies to cover a minimum amount of coverage in each established zone based on their total capacity.
- Provide Carriers with rating flexibility within a maximum allowable as established by an Independent Board with actuarial expertise and under the purview of OIR.
- Establish regulatory incentives to encourage those carriers writing other lines of insurance to begin writing homeowners. Insured's will be driven to those carriers that will pick up both their homeowners and auto coverage, which in turn will stimulate other carriers to do the same in order to retain their market share of the profitable risks.
- Provide incentives for multi-family dwellings/condo associations, etc. to increase reserves and self insure for minor damages.
- Ensure Independent financial stability for primary insurers.
- Eliminate exceptions to the Uniform Statewide Building Code.

ADVOCATE FOR CHANGES AND REFORMS AT THE NATIONAL LEVEL

- The establishment of a National Catastrophic Fund or a Coastal Coalition Catastrophic Fund.
- Create Hurricane Savings Accounts to allow individuals to save money tax free to pay for mitigation, damage to property, and self insurance.
- Change Federal Tax policy to encourage carriers to retain more dollars in reserves.

**Representative
Alan Hays**

Ideas Concerning Property Insurance in Florida

Representative Alan Hays

1. The Legislature should craft a 3 to 5 year plan that will remove the state from the insurance business. This needs to be begun by reducing the tight regulations now in place. The role of the state should be to make sure the claims are paid according to the provisions of the policy and the state can also set rules that prevent citizens from being gouged by the insurance premiums.
2. The legislative package should restore the competitive marketplace for premiums and let the free market decide where the proper premium levels should be.
3. If the state decides to not take the strong positions stated above, then the state should NOT bear the first impact of financial responsibility in any disaster. We may need to stay in the reinsurance role, but we must let free enterprise be the first line of defense.
4. Bottom line is simply the government has no business providing services that can be done so much better by private enterprise. We need to get out of their way and let the market circumstances prevail.
5. One very big point is the resentment inland property owners have toward their high premiums caused by underwriting coastal properties. While I realize there has to be some “spreading” of the risk, the average Florida citizen feels that those who choose to live in the coastal areas should pay their own way.

**Representative
John Legg**

PROPERTY INSURANCE LEGISLATION PROPOSAL

Representative John Legg

HISTORY:

Florida is facing a severe insurance crisis. But why are the insurance rates rising at such an alarming rate? As you are aware, there are several factors contributing to the astronomical insurance rate increases: flood and windstorm coverage, the reinsurance market, the 9/11 tragedy and, of course, hurricanes. There is, however, another cause: sinkholes. Or, rather, sinkhole claims. There is a market in the Tampa Bay area for sinkhole claims and those that take advantage of it are driving up the price of insurance for Floridians across the state.

Pasco County Sinkhole Claims

Measure	2002	2003	2004	2005
Incurred Loss, Net	\$245,550	\$7,697,284	\$33,760,570	\$53,933,875
Incurred LAE, Net	\$43,769	\$1,418,291	\$6,836,707	\$10,504,076
Total Incurred	\$289,319	\$9,115,575	\$40,597,277	\$64,437,951
Reported Claims	12	323	812	632

WHAT HAS BEEN DONE?

In the 2005 Session, I sponsored HB 217, the Sinkhole Insurance Relief Act, which was passed through the property insurance package. This legislation allows policyholders to choose deductible amounts of 1%, 2%, 5%, or 10% for sinkhole losses. Policyholders will receive premium discounts based on the deductibles they choose. It also created a neutral evaluation process in which disputed sinkhole claims will be reviewed by an evaluator approved by DFS. The neutral evaluation process should reduce the number of legal claims that go to court. The Act directs the OIR to recognize the savings from the changes made by this bill when insurers file their rates. Finally, it authorizes insurers to make direct payments to the persons selected by the policyholder to perform the land and building stabilization and foundation repairs.

Major reforms were passed through this legislation but there is much left to accomplish.

PROPOSAL:

We must redefine sinkhole activity to “catastrophic ground cover collapse.” This means geological activity that, within a period of 7 days or less, results in the formation of a sinkhole at least 5 feet deep. The term does not include ground cover subsidence caused when, during a period exceeding 7 days, the upper surface of limestone is dissolved away and the ground slowly subsides. Property owners should understand that a sinkhole happens suddenly and causes great damage. It does not happen over a long time and cause, for example, cracks in one’s driveway. This is simply a sign of a house settling and should not be confused with sinkhole activity.

My proposal also includes offering sinkhole coverage to policyholders on an optional basis. The goal is to allow policyholders to affirmatively choose whether to purchase sinkhole coverage rather than have this coverage automatically provided. To ensure that banks and other lending

companies are covered for legitimate losses, all base policies should provide for “catastrophic ground cover collapse.”

We all agree the number of people covered by Citizens Property Insurance is outrageous and we must bring private insurers back into our state. I believe this proposal will bring rates down in Florida and help rebuild a competitive insurance market.

Citizens Property Insurance has evaluated this proposed legislation and determined at least a 43% decrease in insurance rates in the Tampa Bay area.

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YEAR

1 A bill to be entitled

2 An act relating to sinkhole insurance; amending s.
3 627.706, F.S.; revising sinkhole insurance provisions to
4 include coverage for losses due to catastrophic ground
5 cover collapse; revising definitions; providing an
6 effective date.

7
8 Be It Enacted by the Legislature of the State of Florida:

9
10 Section 1. Subsections (1) and (2) of section 627.706,
11 Florida Statutes, are amended to read:

12 627.706 Sinkhole insurance; definitions.--

13 (1) Every insurer authorized to transact property insurance
14 in this state shall make available coverage for insurable
15 ~~sinkhole~~ losses on any structure, including contents of personal
16 property contained therein, resulting from a catastrophic ground
17 cover collapse or to the extent provided in the form to which the
18 sinkhole coverage attaches. A policy for residential property
19 insurance may include a deductible amount applicable to losses on
20 the structure resulting from a catastrophic ground cover collapse
21 or sinkhole losses equal to 1 percent, 2 percent, 5 percent, or
22 10 percent of the policy dwelling limits, with appropriate
23 premium discounts offered with each deductible amount.

24 (2) As used in ss. 627.706-627.7074, and as used in
25 connection with any policy providing coverage for ~~sinkhole~~ losses
26 resulting from a catastrophic ground cover collapse or sinkhole:

27 (a) "Catastrophic ground cover collapse" means geological
28 activity that, within a period of 7 days or less, results in the
29 formation of a sinkhole at least 5 feet deep as measured from any

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30 point on the surface of the ground immediately adjacent to and
31 surrounding the sinkhole that renders the insured structure
32 uninhabitable. The term "catastrophic ground cover collapse" does
33 not include ground cover subsidence caused when, during a period
34 exceeding 7 days, the upper surface of limestone is dissolved
35 away and the ground cover slowly subsides to occupy the space
36 once occupied by limestone.

37 (b) ~~"Sinkhole Loss"~~ means structural damage to a structure
38 or the building, including the foundation, caused by a
39 catastrophic ground cover collapse or sinkhole activity. Contents
40 coverage shall apply only if there is structural damage to a
41 structure or the building caused by a catastrophic ground cover
42 collapse or sinkhole activity. Structural damage consisting
43 merely of the settling or cracking of a foundation, structure, or
44 building does not constitute a loss resulting from a catastrophic
45 ground cover collapse or sinkhole activity.

46 ~~(c)(d)~~ "Professional engineer" means a person, as defined
47 in s. 471.005, who has a bachelor's degree or higher in
48 engineering with a specialty in the geotechnical engineering
49 field. A professional engineer must have geotechnical experience
50 and expertise in the identification of sinkhole activity as well
51 as other potential causes of damage to the structure.

52 ~~(d)(e)~~ "Professional geologist" means a person, as defined
53 by s. 492.102, who has a bachelor's degree or higher in geology
54 or related earth science with expertise in the geology of
55 Florida. A professional geologist must have geological experience
56 and expertise in the identification of sinkhole activity as well
57 as other potential geologic causes of damage to the structure.

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58 ~~(e)(a)~~ "Sinkhole" means a depression in the ground cover,
59 visible to the naked eye, landform created by subsidence of soil,
60 sediment, or rock as underlying strata are dissolved by
61 groundwater. A sinkhole may form by collapse into subterranean
62 voids created by dissolution of limestone or dolostone or by
63 subsidence as these strata are dissolved.

64 ~~(f)(e)~~ "Sinkhole activity" means settlement or systematic
65 weakening of the earth supporting such property only when such
66 settlement or systematic weakening results from movement or
67 raveling of soils, sediments, or rock materials into subterranean
68 voids created by the effect of water on a limestone or similar
69 rock formation.

70 (g) "Uninhabitable" means condemned and ordered vacated by
71 the governmental agency charged with making such findings and
72 issuing such orders in the county in which the insured structure
73 is located.

74 Section 2. This act shall take effect upon becoming a law.

**Representative
Mitch Needelman**

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Executive Summary

It has become clear that due to rapidly increasing population and “coastal build out” the State of Florida faces increasing risks from the threats of severe weather as we move into the future. The economic damage potential, even from minimal strength storms, increases exponentially when coupled with the rising costs of repair and rebuild.

It is evident that some portion of this expansion is simply uninsurable in the private marketplace. To accommodate this fact, and to guarantee that Florida residents are afforded the same ability to enjoy their property as those in other parts of the country, we clearly need to take action.

Legislative intervention is necessary to address the problems that have created the current insurance crisis for the citizens of the State of Florida. Since the exceptionally active and destructive hurricane seasons of 2004-2005, the procurement and cost of insurance has become unattainable for many and unrealistic for most. In many instances certain of our citizens and business owners cannot obtain insurance at all. This puts their very sizable investments in their homes and businesses at tremendous risk, and in many cases jeopardizes their very existence.

The uncontrolled and escalating cost of insurance is driving people from their homes, and from the State of Florida, as the ability to pay for even basic insurance coverage declines with the soaring cost of premiums. For those on fixed incomes, or the elderly, this crisis is particularly alarming. In many, if not most cases, they can envision a very clear picture of future loss of their homes due to inadequate or no insurance coverage in a storm, or alternately face losing those homes to foreclosure if they cannot provide insurance coverage required by their mortgage companies. This double jeopardy can strip from them their most important possession, the one thing they have worked all their lives to attain, their home. This is inexcusable, and it needs to be remedied immediately through legislative action that provides options and remedies to address the issues.

In this election year, we are all aware that insurance is THE primary focus of all voters. They have made it clear to candidates statewide that it is their most important issue. It cannot be ignored, and it must be resolved. Solutions must be found that will work long-term and that are flexible enough to meet the challenges of the changing needs of the market. Many are affected by the issues; not just the residential consumers, but industry, business and government as well. There must be a solution that will address the needs and concerns of all. We must define a consistent approach to regulating the insurance industry, and with that definition bring relief to our citizens. It cannot wait. Many are facing loss of their homes and businesses even as this paper is prepared. We must work efficiently and expeditiously to provide the answers NOW, before it is too late for many.

A number of proposals are offered herein that may, individually or in a combined form, provide relief for the challenges we all face at this time.

Research

Alarmed by the sheer numbers of calls, letters, personal visits to the district office, and the concerns voiced at the numerous Town Hall Meetings held in District #31 after the 2006 Legislative Session ended, which all focused on the insurance issues, we decided we needed to poll the constituency further on this matter in September. Special thanks is given to Mr. John Harper of WMEL 920 AM in Melbourne, Florida, for serving as moderator of the Insurance Forum and also affording us the opportunity to gather information through his radio station with generous air time allotted for constituents to call in and speak directly with me. His assistance was invaluable in gathering this information

A panel of experts was on hand, (see attached list and credentials) to answer questions and listen to suggestions from the constituency in District #31. This forum was well attended, and the participants offered many viable suggestions to solve the crisis.

Following the forum, we hosted an open comment period to allow anyone who may not have been able to attend the forum to submit ideas for reform and restructure. This ensured that we gave ample opportunity to every one of our constituents and interest groups to provide input. We also invited comment from Business and Professional Organizations in District #31.

District #31 is a homogenous cross section of insurance issues. We have coastal (barrier island) risk factors, coastal estuary and river risk areas, a large population of elderly and retired residents in multi-family dwellings and manufactured homes, a large suburban population of young, working families, a great many coastal and working waterfront business interests, high tech businesses, our military and NASA interests in Patrick Air Force Base and the Space Center Complex. This district, probably more than any other, defines all the parameters of the problems and risks currently facing all Floridians. It was a great demographic from which to solicit information on what the true concerns of the citizens are.

After the forum, we received numerous letters, documents prepared by other groups similarly engaged in exploring this topic, and comments ranging from extremely emotional accounts of personal hardship to very factual number crunching from businesses that face possible bankruptcy as a result of being unable to meet deductibles, pay astronomical post-hurricane insurance premiums, and outright cancellation of hurricane coverage altogether.

Once the input was received and compiled into a workable form, we held another meeting with the original panel members to consolidate the suggestions of the participants into the most viable and achievable solutions. Those are included in the body of this paper as the potential actions to solve the problems. We respectfully submit these for your consideration as the Special Session convenes to discuss the insurance crisis.

Biographical Information on Our Esteemed Panel Members

Dan Adovasio:

Mr. Adovasio has been a Brevard County resident for 18 years. He has served on the Boards of both the Economic Development Commission and the Cocoa Beach Chamber of Commerce. He has participated in development of the Brevard County Charter as a member of the Charter Commission.

He holds a BBA from the University of Cincinnati, and owns a State Farm Insurance Agency in Merritt Island. He brings excellent knowledge and expertise concerning the insurance industry to the panel.

William (Bill) Duke:

Mr. Duke is Director of Mortgage and Sales and Service for Space Coast Credit Union. His primary focus is on mortgage placement as he directs the activities of 25 mortgage lending professionals. His team has a 99% approval rating.

Vast knowledge of insurance matters and policy placement are critical to the mortgage placement process, and Mr. Duke brings this expertise to the table. He is a valuable asset to the panel.

Bill Hickman:

Mr. Hickman is a Realtor at Exit One Realty. He has many years of experience in the real estate industry, extensive knowledge of insurance matters as they pertain to home loans and mortgages, and brings this knowledge to the panel. He has been an invaluable asset to the process.

Stephen "Steve" G. Charpentier

Mr. Charpentier is a trial lawyer of proven experience.

In 1990, 1994 and again in 1997 Steve was presented with the "Eagle Talon Award" by The Academy of the Florida Trial Lawyers. In 2000 he was presented with the "Silver Eagle Award" by The Academy of the Florida Trial Lawyers for outstanding leadership. Steve has been awarded "Martindale-Hubbell's" National Law Directories highest honor - "AV" rating. Steve is involved in the local community. He is also active in various civic and charity fund-raising organizations.

James C. Marshal:

Mr. Marshal is a 20+ year resident of Brevard County. A Melbourne High School Graduate, he also attended Brevard Community College, Rollins College of Economics, and holds a Certified Financial Planner Certificate from Florida Institute of Technology.

After years of service with several prestigious national financial companies, he presently is the owner of Safe Harbor Financial Services, LLC, and Total401k.com, through which he assists small businesses and families in reaching their financial goals.

He is a active member of the Melbourne Area Chamber of Commerce, LEAD Brevard's Work Force Housing Committee, Salvation Army Advisory Board Member, Board Member of the Economic Development Commission in Brevard County, and serves as Vice President for the PTO Board at his children's elementary school.

Tim McWilliams:

Tim McWilliams is a Builder- Developer and Realtor in East Central Florida. He is a graduate of the University of Florida in Finance. He is the President/CEO of McWilliams Realty and several development companies.

He is currently developing several communities in Melbourne area. He is Past President of the Home Builders and Contractors Association of Brevard, Brevard Builder of the year and currently serves on the Melbourne Area Association of Realtors Board of Directors.

Proposals

We have combined all of the data received into a consensus compilation of the “best of the best”. Others may offer similar or overlapping proposals. However it is the unanimous belief of our experts that these recommendations comprise the keystone to the reforms needed to address the crisis, and represent the broadest base of respondents available.

Proposal # 1

Create a Florida Re-Insurance Pool

Citizens Property Insurance Corporation was initially established as the “Insurer of Last Resort” for Florida’s highest risk properties. Contrary to the principals on which it was founded, it has instead grown into the largest insurer in the State of Florida, and the fourth largest insurance company in the United States, according to available data. This was neither the purpose nor the intent of Citizens. It is imperative that the State of Florida immediately withdraw from the business of insurance.

The State Catastrophic Fund was established to cover a shortfall in event of a disaster. It no longer meets the needs of the original plan. There simply are not adequate funds available to handle the level of catastrophe faced in a major or multiple storm event. Therefore, this should be creatively restructured to take the burden off the policy holders in the post storm timeframe, such as recently experienced with the premium increases after the hurricanes of 2004-2005. The goal of restructuring the Catastrophic Fund should be to provide relief from increasing premiums and stabilize the insurance market.

We propose using the existing Catastrophic Fund as the basis for a Florida Re-Insurance Pool. This would have the added advantage of phasing out the Citizens Program.

Funding for the Reinsurance Pool would be from several venues, among them existing State Savings Accounts that have ample resources at this time to be drawn from to establish the pool. All the savings accounts held by the state are comprised of tax money, so the citizens of Florida would be considered to be the investors in this pool.

The pool could be replenished in future from these same sources, as well as from the *windfall sales tax revenues that come from the sales tax realized on purchases of hurricane repair and rebuild supplies in the event the fund is accessed for storm mitigation. * (This was estimated to have been nearly \$960 million post storms in 2004-2005).

In years where there was no catastrophic loss, the earned revenues of the fund, once it has reached the minimum required reserve amount, would be redistributed to the citizens (investors) in form of dividends.

An added benefit of this fund is the ability to attract out-of-state investors. To maintain this attraction, however, the fund could not be subject to annual legislative reallocation. Therefore, the

fund would have to be protected from this by Constitutional amendment to limit use to only the purposes authorized by statute.

This pool would be competitive in the Global Market as opposed to how the Citizens Program is presently structured. “Competitive” is the key word. The State would not take over the world market, it would simply create competition in the world market because of the two distinct advantages it has in this regard:

- 1.) Tax Exempt Status – because the state enjoys tax-exempt status, the reserves and their earnings would be non-taxable. All returns on the investment would be put back into the fund or distributed as dividends.
- 2.) There is no need to satisfy the high return rate expectations from investors in private re-insurance markets. The investors in this case would be the citizens, or conservative private interests. Both of these advantages would create a great deal of competition in the global markets for re-insurance.

The third key to creating competition would be to return to the Historical Method for calculating the costs of re-insurance. This would base the cost on a 30 Year Historical Model of past years’ events rather than on “Next Year’s Climatological Predictions” from the crystal ball method currently used, which was shown to be so erroneous in the 2006 season. Prediction factors were continually revised downward as the season progressed with no storms. However these factors did not reduce premiums for anyone. It may be argued that past history is the best and most accurate predictor of future events.

The base reinsurance pool fund would be established by the Legislature as a calculated acceptable minimum reserve amount to offset a specified amount of loss. Once this amount was established and set aside, in years where there was no loss, the excess amounts (returns on investments of the money) could be directed to the investors as dividends.

Part of the skyrocketing increase in insurance premiums is the cost of re-insurance. Prior to the hurricanes of 2004, these costs were reasonably set. However after the losses in 2004-2005, reinsurance costs increased almost exponentially. The re-insurance fund would eliminate or reduce the inflation on reinsurance costs by creating a competitive atmosphere.

Proposal # 2

Ala Carte Insurance

This would afford the homeowner the ability to choose their own insurance “package” : the amounts of coverage, deductibles, amount of protection for furnishings and personal possessions, replacement or cash value coverage, etc. It would also provide for selectively insuring the dwelling just for the amount of the mortgage rather than full value of the structure if so desired. Example: Currently a home valued at \$100,000.00 is insured for \$100,000.00, even though the mortgage may only be for \$30,000.00. Ala Carte coverage would allow for only \$30,000.00 of insurance at the homeowner’s choice and risk. This option would also allow for “self insurance” if sufficient equity exists in the home to allow it. (Acceptable ratio of equity to mortgage would have to be determined).

Other factors to protect policy holders in this approach would be:

No cancellations permitted 30 days before Hurricane Season begins. No cancellations permitted at policy expiration date if a storm is threatening the insured area.

All insurers would be required to offer a full line of coverage and options, but consumers would be able to choose different classes of coverage from different companies, depending on costs. There would no longer be “forced package coverage”. This would also encourage competition in the marketplace.

Actual Cash Value versus Replacement Value coverage would be consumer’s choice. These amounts would not be a function of total value coverage of the structure.

Disclosure would be a part of this option. This would entail requiring insurers to provide a detailed list of credits for hurricane protection devices on homes to allow home owners to review and choose those options that would afford them better protection with a clearly defined schedule of savings from installation of these devices. The homeowners would install devices of their choice, and insurance companies would have the option of either accepting verification from homeowners through photographs and receipts from installers, or inspecting and verifying installation at the insurer’s expense.

Insurers would provide a clear schedule of coverage offered, deductible amounts, credits received for protective devices, and clear formulas to easily calculate the costs per thousand dollars of coverage. The homeowners would be able to choose their own package of coverage and calculate the costs themselves.

In cases where previously damaged homes have been rebuilt to current construction codes, the date of rebuild should be the basis for insurance premiums, not the date of original construction on the site, if current building codes have been met in the rebuild.

Proposal # 3

Trust Fund Coverage

Because Florida consumers continue to face challenges finding choice and favorable pricing for property insurance, our goal should be to stimulate competition and diversify our insurance provider base to encourage the growth of both small and medium sized insurance companies and remove or remodel regulation to properly fit the dynamics of these smaller firms. Ideally we would also seek other free market solutions to help Florida share storm risk with larger numbers of individuals and/or corporations beyond our State and tropical geography.

For any type of insurance program to work efficiently, risk must be shared among large numbers of people in geographically diversified locations. Today, our large insurance providers have isolated Florida as its own risk pool where we as a state no longer receive the benefits of the “law of large numbers”. These largest insurance companies have placed constrictions on their Florida Insurance Divisions that are deliberately designed to protect the shareholders of the large conglomerate

companies from our storm risks and placing that burden squarely on our citizens. We must require them to remove those constrictions and spread the risks across the entire company, not just the Florida divisions.

We have identified one unique approach that can create the ideal incentive to attract individuals and corporations to participate in this risk pool. It is a known fact that wherever profits are to be had, capital will flow. The question is whether the risk is appropriate for the reward. Today, we believe that insurance prices have moved significantly high enough to attract capital investment from a multitude of investors. However, with significant regulation in place, company formation is difficult at best. There needs to be an alternative solution that has the proclivity to provide a more immediate opportunity.

We would like to introduce the concept of the Trust Fund Investment Pool:

“It looks like insurance... it can act like insurance, but it is actually a security or bond as defined under the Securities Exchange Act of 1934”.

Definition - A corporation or trust that uses the pooled capital of many investors (accredited and/or non-accredited) in the form of a security to underwrite and provide supplemental property reinsurance, or provide catastrophic reimbursement for a geographically diversified portfolio of risk assessed commercial properties (such as hotels, malls, and other commercial or industrial properties) and/or residential homes: Real Estate Insurance Trust Agreement. (REITA)

REITAs are suited to provide high yield income to investors in the form of dividends based on total premiums received. If combined with the investment performance of the pooled reserves found within the Trust, yields can easily match those of other high yield fixed income securities. (Example: risk pool rate of return at 5% from low risk investments + total premiums received + potential tax incentives less any claim reimbursements = gross return). The higher the return on investment... the increased prevalence (or supply) of speculative capital as we commonly find in Futures Exchanges and other capital markets.

REITAs provide indemnity coverage for specifically underwritten properties. Total catastrophic risk amount never exceeds the value of the initial capital requirement of the risk pool. Losses from a single property cannot exceed its coverage amount as each property has a stated maximum loss. Unlike insurance, REITAs are not required to have reserve amounts significantly in excess of expected losses for reasons stated above. REITAs are designed to provide catastrophic coverage and will not seek to provide first dollar coverage. They are designed to keep Florida's economy strong today and help us recover and rebuild should we experience a catastrophic loss.

REITAs, as each property is individually underwritten for inclusion in the portfolio by management of the Trust, provides the opportunity and incentive for a property owner to benefit from structural upgrades done to improve the survivability of their property. Under current situations, many property owners are anchored to statistical data based on the age of their dwelling regardless of structural improvements or investment.

REITAs do not necessarily increase or decrease in value based on interest rates or other broad market indexes, but rather on fundamentals: premium income; premium quality of the portfolio; the collective portfolio credit rating; claims paid; and weather patterns. Risk assessments and increases are fixed for the entire term of the Trust preventing rampant insurance increases due to a single season of active storms. The termination length of a REITA can vary from 1 year to 30 years with

return of principle features commonly found in mortgage securities such as CMO's (Collateralized Mortgage Obligation).

REITAs: Can be thought of as a re-insurance premium-backed synthetic bond that separates risk in tranches (a set of risk classes or risk maturities which comprise a multiple-class security) or into different maturity classes. This can eliminate the risks associated with premium defaults, and/or agreement cancellations because each security is divided into separate maturity classes that can mature in specific order. A given tranche may receive interest, principal, or a combination of the two, and may include more complex stipulations such as capital gains or other forms of investment gains.

REITAs can be used to assist property owners in self-insuring using equity amounts above any mortgage liabilities. Participation in a REITA can be limited by any mortgage liability. Having a capitalistic free market program in place that has the flexibility to protect banks and provide the security they need to continue lending and investing will serve to foster continued strong economic growth in Florida.

REITAs may also be granted special tax considerations intended to foster continued economic growth in areas designated as redevelopment districts, high economic value districts, and/or designated high storm risk zones. Having such flexibility will allow State legislators to direct critically needed support to specific areas rather than having to share subsidies across all regions of the State.

To begin building a platform for insurance synthetics such as the REITA, our state legislature must provide a path to allow the formation of Private Indemnity Trusts for the purposes of reinsuring specific buildings or portfolios of geographically diverse structures. Formation of these synthetic type insurance securities can be stimulated with the approval of a special two year "Quick Start" tax incentive. All REITAs formed during the first two years and created under model guidelines that further take responsibilities of certain policies held within the Citizens program will be eligible for the Quick Start tax rebate.

With the establishment of a limited window of opportunity for the Quick Start program, legislators for the first two years should be provided sufficient data detailing an insurance market that has stabilized over the time period. Data should additionally support the formation of new competitive forces, with a result of fewer policies on the books with Citizens. Florida will be highly regarded as a State that has created a program other high risk locations can model on... with risk being shared by investors globally.

Proposal # 4

Deregulation

This would encourage additional companies who do not presently do business in this State to consider coming into the state. It would create a competitive atmosphere. A method of deregulation would be to reduce the currently required ratio of assets in reserve to homes insured to make this more attractive to companies that cannot currently meet those requirements. It would increase the number of insurance companies in the marketplace.

Proposal # 5

Accountability

The norm has become that every year consumers across several lines of insurance are greeted with higher premiums, seemingly with little or no justification, or justification based on incomplete or inaccurate data.

While consumers pay more for coverage, they receive less protection and fewer services. Premium increases often seem arbitrary and without rational basis. Meanwhile the insurance industry is raking in strong profits and amassing huge surpluses, despite the 2004-2005 catastrophic hurricane seasons. Since the 2006 season is nearly passed without incident, this year promises to be a tremendous profit year for the insurance industry. Florida's insurance consumers directly feed this profit. Regulation and accountability are the keys to stopping this runaway train. It is time to impose accountability on everyone involved in this industry. Insurance companies, and their top-level management, should be held to the highest of ethical standards.

The first step in achieving this accountability is to return the office of Insurance Commissioner to an elected post and elevate it to a Cabinet Level position. This would immediately increase the accountability to voters, as it would no longer be an appointed position. This move would require a citizen's initiative or legislative action to place it back on the ballot as a constitutional amendment. While cumbersome to attain, it would put a level of oversight on this office that would bring it into the realm of working for the citizens, not an autonomous position.

The second step is to establish an "Office of Public Counsel" based on the current office of "Insurance Consumer Advocate" which serves as a citizen's watchdog on insurance issues. It would oversee the insurance rate review process and advocate on behalf of Florida's insurance consumers. The present Advocate position has no authority to act. It can only make recommendations, which are largely ignored. This position needs to be strengthened and given the teeth and funding needed to make it effective as a true advocate, and assure it has the resources to go toe to toe with the insurance industry actuaries and experts.

An example of the present lack of strength is that under the current "Use and File" procedure to request a rate hike, insurance companies can raise rates while awaiting a decision. If the advocate position were strengthened, this office would review and monitor the rate hike requests, and insurance companies would not be permitted to collect higher rates until public hearings have been held and insurers have proven through audits that the hikes are justified.

Our last proposal in achieving accountability is to require that the chief executive officer and the chief financial officer of each insurance company, or a certified public accountant on their behalf, sign a statement of certification to accompany annual statements, rate filings and acquisition reports. This ensures that each of these individuals accepts responsibility for the actions of the company. In the case of rate filing, failure to submit the certification would result in the filing being disapproved until such certification is received.

There is presently no requirement under Florida Law that insurance company executives sign the reports they file with the Department of Insurance, under oath. **The citizens of Florida should have the same protection from corporate fraud available to the shareholders of those corporations.**

Proposal # 6

Risk-Based Capital Consideration in Rate Structuring

This proposal would allow the insurance regulators to consider risk-based capital requirements not only in determining insurance solvency of a company to do business in Florida, but also to be factored into a company's rate setting policies based on their assets.

This would increase insurer's accountability and also reduce or stabilize premiums based on consideration of these factors.

Risk based capital is a method developed by the National Association of Insurance Commissioners to measure the minimum amount of capital that an insurance company needs to support its overall business operations and is used to set capital requirements considering the size and degree of risk undertaken by the insurer.

Currently, Florida law allows the measurement to be used to monitor insurance solvency, but it is not considered a factor in the rate making process.

Insurance company profits in stocks and investment income are a huge part of their operating system, and provide a base of financial stability and asset protection. They should be considered in rate making and used to lower insurance premiums for consumers. Strengthening Florida's risk-based capital laws allowing this measurement to be used to determine appropriate rates and premiums will guarantee that insurance companies are using profits to lower rates and not to increase their portfolios at consumers' expense.

Conclusion

Choice of any of the above options would effectively eliminate the Citizens Program, and that has been a goal from the beginning. Therefore, we would respectfully request that all these proposals, or any combination of them, be considered in the special session.

Our Recommendation

Our foremost recommendation is the Florida Re-Insurance Pool. The initial “investment” would be the current “catastrophic fund” and the balance could be obtained from other State Savings accounts that are eligible for withdrawal for this program. After the start-up, the fund would be self-sustaining in terms of interest earned for each year the State had little or no loss from hurricanes. It is important not to use the forecaster’s model for determining risk, but the 30 year model of actual risk. Using this model, the risks are more realistically determined, and the actual losses are more reality based than the forecasters’ models, which always assume worst case. Based on that, the projection for the Re-Insurance Pool is a healthy, self-sustaining program that brings costs into alignment and insurance back into the affordable realm of each and every Florida home and business owner.

If the Reinsurance Pool were adopted as the Keystone of the program, and the other proposals implemented in support of this recommendation as additional tools to strengthen the entire program, it would bring about a viable and safe alternative to the current situation, and provide regulated, structured, fair and equitable insurance coverage for the citizens of this state.

**Representative
Bryan Nelson**

Insurance Idea

Representative Bryan Nelson

The three largest home insurers in the state have reduced their exposure to Florida.

The limited apportionment and locally domiciled carriers have been the ones to add policies.

I would like to see us lower the minimum to 5 million and raise the maximum to 100 million to the Rapid Capital Buildup surplus notes available to these small and medium sized carriers.

These are just loans and even in the event of a catastrophic loss our maximum loss would be 50% of the capital at risk and double fund from 250 to 500 million.

Sales tax revenue from hurricane repairs minus our contribution to FEMA added to the CAT fund.

	Sales Tax	FEMA Contribution	Add to CAT
2004	750 million	472 million	278 million
2005	532 million	401 million	131 million
2006	0	0	0

In good years my plan won't work and that's a good thing.

In bad years the extra money will help to soften the re-insurance blow.

**Representative
Ralph Poppell**

Property Insurance Suggestions

Representative Ralph Poppell

- During the late 1990s the insurance commissioner allowed certain national corporations to file as Florida-only subsidiaries. A national corporation's profit and loss experience in each state should be considered in Florida rate filings by these subsidiaries. Reinsurance coverage purchased by a subsidiary from a parent company should not be considered in rate filings.
- Allow companies to have a credit for taxes paid on reserves against their Florida Corporate Income Tax bill. Bank reserves are exempt from taxation because the Generally Accepted Accounting Principles consider such reserves an allowable expense. Insurance companies are currently required to have 100% loss reserve, but have a disincentive to keep a larger reserve because they are taxed. Thus, if property values rise, and with them the cost to replace, the insurance company must reduce policies and raise premiums to cover the liability. If we can offer a credit on a Florida Corporate Income tax liability, we can make Florida a more attractive place to do business, encourage companies to build a larger reserve, and lessen the reliance on reinsurance. Federal legislation (H.R. 2668) would have amended the Internal Revenue Code to provide for the creation of disaster protection funds by property and casualty insurance companies for the payment of policyholders' claims arising from future catastrophic events.
- Lower the threshold for access to the Hurricane Catastrophe Fund, so that the state could provide reinsurance at a reduced cost to private carriers. It is important to have a specific statutory mechanism to ensure that savings to an insurer brought on by the state's cheaper reinsurance would be passed on to the policyholder.
- Property insurance policies should not be cancelled during the Atlantic storm season. If policies are otherwise cancelled, a pro rata amount of the premium must be refunded to policy holder no later than 30 days before policy cancellation date.
- Policy dates should be realigned so that policy renewals do not fall during storm season. This would also encourage insurers to secure reinsurance coverage before the onset of storm season.
- Consider repeal of the "Use and File" rule.

Representative John Quinones

A bill to be entitled

An act relating to insurance; amending s. 626.9541, F.S.; providing that an insurer's failure to offer in this state any kind or line of insurance offered in another jurisdiction constitutes an unfair method of competition and an unfair or deceptive act; providing penalties; requiring the Financial Services Commission to adopt rules; providing an effective date.

Be It Enacted by the Legislature of the State of Florida:

Section 1. Paragraph (ee) is added to subsection (1) of section 626.9541, Florida Statutes, to read:

626.9541 Unfair methods of competition and unfair or deceptive acts or practices defined.--

(1) UNFAIR METHODS OF COMPETITION AND UNFAIR OR DECEPTIVE ACTS.--The following are defined as unfair methods of competition and unfair or deceptive acts or practices:

(ee) Selectively limiting insurance offerings.--Failing to offer in this state a kind or line of insurance which the insurer offers in another jurisdiction. An insurer need not offer every kind or line of insurance, or any particular kind or line of insurance, in this state; however, if an insurer offers a particular kind or line of insurance anywhere the insurer does business, the insurer must offer the same kind or line in this state. The commission shall adopt rules to implement and administer this paragraph.

Section 2. This act shall take effect July 1, 2007.

**Representative
Julio Robaina**

Property Insurance Proposed Solutions

Representative Julio Robaina

1. Mandate that the entire State of Florida adopt the South Florida building codes, thus removing all carve-outs or exceptions from current state law.
2. Removal of the imaginary lines for wind insurance policies and base future policies on **“Insuring the risk and not the geography.”**
3. The State of Florida should pass a law that mandates the creation of an inspection process/rating and categorizing system of all homes in the State of Florida. Reason being, again, **“Insuring the risk and not the geography.”**
4. Raise the state mitigation grant dollar program, also known as mysafefloridahome.com, to \$500 million for the next fiscal year.
5. Create incentives for builders and developers who build homes with concrete roofs.
6. Mandate that a worksheet be provided with each insurance policy in the State of Florida with choices in order for homeowners to calculate their own premiums.
7. Mandate that no insurance company in the State of Florida who has written or currently writes homeowner and/or commercial property insurance or that writes it in any other state shall have the right to drop these types of policies and only remain in what currently is lucrative to that insurance company.
8. Continue to facilitate the self insuring of condominiums and HOA’s.
9. Have the state create their own reinsurance pool that will allow both citizens and smaller private insurance companies to buy reinsurance from the state.
10. Repeal the law passed in 1996 allowing PUP companies.
11. Insurance companies should not be allowed to drop any policies 30 days prior to hurricane season.
12. Insurance for the film and entertainment industry.

These ideas were submitted by entities outside of the House.

They are included for discussion and informational purposes only.

Any questions regarding these ideas should be directed to the submitting entities.

**Governor
Jeb Bush**

**ANALYSIS OF
GOVERNOR BUSH'S
PROPOSED LEGISLATION**

**PROPOSED LEGISLATION
SUMMARY OF MAJOR PROVISIONS**

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3	SBA-Capital Markets (215.555)	11
3	CAT Fund - Temp. Lower Layer (215.555)	11
3	CAT Fund – Temp. Commercial (215.555)	18
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BY TOPIC

Residential Insurance Market/Consumer Issues (Sections 33,34,35 & 38)

- Transparency for consumers (residential and commercial). Require the *premium notice and policy* to:
 - specify premium mitigation discounts available (by dollar amount) for each policyholder on each mitigation measure and for a combination of various mitigation measures, in a format specified by OIR.
 - identify amounts recouped for assessments by Citizens Property Insurance Corporation (Citizens), the Florida Hurricane Catastrophe Fund (CAT Fund), or the Florida Insurance Guaranty Association (FIGA), respectively. Prohibit abbreviations.
 - identify the amount of any premium increase that is due to a rate increase and the amounts that are due to coverage changes.
 - identify the amount (by dollar) of the agent's commission.
 - identify the amount of insurance premium tax by dollar amount.
 - require plain language in insurance policies.
- Move the Office of the Consumer Advocate under the Financial Services Commission (Cabinet) rather than the Chief Financial Officer for oversight. (Section 24)
- Require insurers to offer a policy that excludes windstorm coverage from a residential property insurance policy if the policyholder signs a written rejection of such coverage on a form approved by OIR with appropriate disclosures.

Insurers would still be required to offer a policy that includes windstorm coverage. (In windstorm and non-windstorm areas of the state) (Section 37)

- Require insurers to offer dwelling limits for windstorm coverage that only covers the outstanding balance of the mortgage. (Section 37)
- Require insurers to offer policies that provide no personal contents coverage. (Section 37)
- Eliminate maximum allowable deductibles that would allow insurers to offer deductibles of any amount in addition to the 2 percent, 5 percent, and 10 percent deductibles that must now be offered. (Section 36)
- Revise the Florida Market Assistance Plan (FMAP) to provide for a boarder assessment to residential and non-residential property insurers. (Section 32)

Florida's Commercial Insurance Market/Property Casualty Joint Underwriting Association (PCJUA)

- Depopulate Citizens commercial risks into the PCJUA. Prohibit Citizens from writing builders risk or commercial-commercial policies. Revise and update the PCJUA statute by expanding and updating the assessment base for the PCJUA. Seek to achieve IRS tax-exempt status for the PCJUA (Similar to Citizens). (Sections 29, 30 & 31)
- Begin state funded research concerning mitigation of commercial structures. Evaluate whether strengthening the state's building code for commercial structures, and the grading of commercial structures, should be considered. (Section 5)
- Adopt statutory language to allow risk pooling for windstorm property coverage for all "like" entities such as public hospitals, public educational facilities, and community colleges. (Sections 1 & 15)
- Add commercial carriers to the CAT Fund and provide an optional CAT Fund coverage to commercial insurers for a two year period. (Section 3)

Florida Building Code

- Adopt a uniform statewide building code that incorporates the American Society of Civil Engineers (ASCE) wind lines, and prohibit any changes in future statewide building codes unless such a change enhances the structural integrity of the code as it relates to wind protection. (Section 10)
- Develop a code plus standard that the insurance industry would recognize for maximizing premium discounts. (Section 10)

- Encourage local governments to promote and advocate for code plus structures by providing incentives to builders like density bonuses, lower impact fees, and concurrency credits when new construction is built at *higher levels* than the current approved building code. (Section 9)

Mitigation

- Continue and revise the Mitigation Program being administered by the Department of Financial Services. Earmark a portion of future mitigation funding to be used for Citizens' policyholders. (Section 4 & 5)
- Require modeling firms to recalibrate their models to take into account the results of mitigation in Florida. (Sections 26 & 28)
- Require uniform mitigation verification inspection forms to be developed for all insurers. (Section 5)
- Ensure that insurance companies appropriately adjust premiums for homeowners when meaningful and verifiable mitigation measures are undertaken. (Premium discounts) Credits with smaller ranges should be developed while allowing market competition in the credit process. (Section 5 & 22)
- Authorize the creation of a not-for-profit corporation to raise funds from the private sector for additional mitigation grants. (Section 4)
- Earmark an appropriation solely for free inspections to encourage more homeowners to mitigate regardless of whether matching grants are available. (Section 4)
- Create a Sales Tax Exemption for approved mitigation materials and supplies. (Sections 5 & 42)
- Ensure insurance agents are providing specific information to homeowners who want to know the premium discounts available for various mitigation options and the means for obtaining the discounts (e.g., continuing education requirements for agents). (Section 21)
- Expand and fund a uniform grading system for evaluating the hurricane strength resistance of homes and commercial buildings. (Sections 5 & 23)
- Require wind mitigation inspectors to be certified by the state with exceptions for licensed contractors. Licensed contractors shall be exempt, if a continuing education course in mitigation is completed. (Sections 4, 5, & 8)
- Encourage local governments to participate in the state mitigation program. (Section 4)

Florida Hurricane Catastrophe Fund (CAT Fund)

- Temporary Emergency Additional Coverage Option (TEACO) provides optional coverage for insurers *below* the CAT Fund's current retention level based on industry retention levels of \$5, \$4, \$3 and \$2 billion. This option is available for only two years and pricing for the coverage is set at "below market" rates. These rates are based on the difference between the current industry retention level and the reduced optional level selected as follows – \$2 billion retention option at 60%, \$3 billion retention option at 50%, \$4 billion retention option at 40% and \$5 billion retention option at 30%. (Section 3)
- Temporary Increase In Coverage Limit Options (TICL) provides a temporary increase in coverage limit so that an insurer can increase its CAT Fund coverage on its premium share up to an additional \$1, \$2 or \$4 billion of coverage. If the CAT Fund claims paying capacity limit is \$16 billion, this option will allow an insurer to increase its total limit based on a CAT Fund total capacity of \$17, \$18 or \$20 billion. The option is available for two years and pricing is set at "below market" rates. These rates are based on the additional limit of increased coverage that the insurer selects. For an additional \$1 billion in coverage the rate shall be 20% rate-on-line, \$2 billion the rate shall be 17.5% rate-on-line and \$4 billion the rate shall be 15% rate-on-line. (Section 3)
- Temporary Commercial Business Catastrophe Program (TCBC) provides optional coverage for eligible insurers who write commercial business property insurance in Florida. Eligible insurers will be able to select a coverage limit up to a maximum of \$100 million per insurer for reimbursement coverage for 45% of their losses in a layer up to \$222.22 million per insurer, which will be subject to the procuring of a matching amount of private reinsurance coverage. The rate shall be 75% of the price associated with the matching layer of private reinsurance. The additional capacity created by this program is limited to \$6 billion and is to be funded by the authorization of additional emergency assessments of up to 2 percent on the same emergency premium base as that of the CAT Fund. (Section 3)
- Move the application date to April 1 to increase flexibility and maximize carrier participation in the CAT Fund. (Section 2)

Reinsurance Market

- Amend the reinsurance law to give insurers credit on their financial statements for other risk transfer or capital markets instruments, subject to the approval of OIR, provided there is a fully funded transfer of risk. (Section 16)
- Reduce or eliminate the trust fund (collateral) requirement for non-U.S. insurers based on a determination by the OIR of the adequacy of regulation of the country of licensure and the financial strength of the assuming insurer. (Section 17)

Citizens Property Insurance Corporation (Citizens)

- Require the Office of Insurance Regulation to set rates for Citizens, based on the highest rate approved for the voluntary market, thus, eliminating the need, cost and time delay of rate filings. (Section 31)
- Allow Citizens to write the full policy. Do away with the wind boundaries and the distinction of wind and ex-wind policies in the current wind boundaries. (Sections 27 & 31)
- Require Citizens policyholders to upgrade their homes to meet the statewide building code over some period of time or risk higher hurricane deductibles applicable to their policies. An exception is made for low income policyholders. (Section 31)
- Allow authorized insurers to write non-homestead Citizens' policies on an individual risk rate basis. (Section 25)
- Allow as an incentive for companies taking out substantial numbers of policies (10,000 or more) from Citizens to charge Citizens' rates for a period of three years after such take-out. (Section 31)
- Clarify the requirements in SB 1980 regarding the offer of quarterly and semi-annual payment premium payment plans to Citizens policyholders. (Section 31)
- As a depopulation incentive, require the Citizens' Board to review the agent commission structure for reductions upon renewal. (Section 43)

Market Incentives/Barriers

- Provide additional funding to the Insurance Capital Build-up Incentive Program for 2007 with a qualified preference to insurers writing manufactured housing policies. The total surplus requirement for an eligible insurer is \$25 million. The 2 to 1 ratio of net premiums to surplus is modified to 6 to 1 of gross written premiums to surplus. The date of application for a surplus note and the date of issuance of such funds are prior to April 1, 2007. (Sections 6 & 7)
- To protect insurance policyholders, the minimum surplus requirement for property insurers (currently \$5 million) is increased to \$12 million. (Sections 13, 14 & 41)
- Promote and facilitate the use of capital markets risk transfer alternatives by amending the insurance laws to authorize OIR approval of Special Purpose Reinsurance Vehicles for the securitization of an insurer's risk (NAIC Model Act). (Section 18)

- Provide authorization for a state facility (e.g., within the State Board of Administration) to hold and invest funds invested (risked) by non-insurance entities, such as pension funds or individuals, covering specified hurricane losses for Florida insurers. (Protected cell) (Section 19 & 20)
- Authorize the CAT Fund or State Board of Administration to use catastrophe bonds, sidecars, and other capital market products to transfer the risk of CAT Fund coverage. (Section 3)
- Allow for state participation in an insurance exchange to securitize, and market to investors, specified levels of hurricane catastrophe risk of insurers. Work with existing exchanges that trade risk transfer products (e.g., the Chicago Mercantile Exchange) to determine if a Florida hurricane risk contract can be structured. (Section 11 & 12)
- Revise Florida's captive insurer law to encourage the maximum use of captives by Florida's businesses and the maximum formation of captives in Florida, where appropriate. (Sections 39 & 40)

Appropriations

- 100 million from General Revenue to continue funding the Insurance Capital Build-Up Incentive Program.
- 100 million from General Revenue to the Insurance Regulatory Trust Fund for continued funding of the Florida Comprehensive Hurricane Damage Mitigation Program. (\$25 million is earmarked for Citizens' policyholders for mitigation efforts and \$5 million is earmarked for home inspections in general).
- 100 million from Florida Small Cities Community Development Block Grant Program Fund to Department of Community Affairs for home hardening.
- \$500,000 from the Department of Community Affairs to the Office of Insurance Regulation for state research on strengthening the state building code for commercial structures.
- \$650,000 from the Insurance Regulatory Trust Fund to fund the continuation of the uniform home grading system.
- \$2,500,000 from Insurance Regulatory Trust Fund to fund the Florida hurricane risk contract development.

Chief Financial Officer-elect
Alex Sink

Approaching Florida's Hurricane Insurance Crisis

*From Chief Financial Officer-elect Alex Sink
For the House Conference on Property Insurance; December 2006*

Florida's hurricane insurance market has spiraled into full crisis over the past several years. Insurance companies have dropped thousands of policies and charging astronomical rates, and Citizens- the government insurer of last resort- is now the largest insurance company in the state. Our charge is clear: we must stabilize the insurance market, draw new capital to the state and help Floridians find access to affordable insurance for their homes and businesses.

Role of the Chief Financial Officer

- Insurance Consumer Advocate- Florida's Chief Financial Officer is uniquely poised to serve as the state's Insurance Consumer Advocate.
- Improve and Expand the My Safe Florida Home Program- Florida is on the cutting edge of proactively preventing hurricane damage through the My Safe Florida Home Program.
- Creation of a Regional Catastrophe Fund- Hurricanes are not a Florida-only problem.

Potential Legislative Proposals

- Lower the Retention Level of the Florida Hurricane Catastrophe Fund- By lowering the retention level of the CAT Fund, we can increase access to more affordable reinsurance in Florida; however, we must have assurances that insurance companies will write more policies or pass the cost-savings along to consumers.
- Ending the Panhandle Exemption to the Statewide Building Code- Currently, North Florida homeowners are being forced to buy into higher premiums long-term, because their homes are not being built to the same code as the rest of the state. Homeowners in the Panhandle should be on a level playing field when it comes to insurance rates.
- Repeal the Requirement that Citizens Property Insurance Company Price their Product by Factoring in the Cost of Private Re-insurance- Floridians simply cannot sustain additional double and triple digit rate increases.
- Using Increased Tax Revenue to Cover Assessments- We may be able to provide some immediate relief by reducing or eliminating the 10-year Citizens' assessment, any potentially any future FIGA assessments.

Commercial Insurance Crisis

Finally, as we consider solutions to the insurance crisis, I would urge us to keep in mind that commercial insurance rates are also spiraling out of control. As a former banker, I am concerned that we are facing a threat to our economy the likes of which we have never before seen. We must encourage the business community of our state to collaborate and work with legislative leaders to find solutions to the current commercial insurance crisis.

Auto-Owners Insurance

AUTO-OWNERS INSURANCE COMPANY
AUTO-OWNERS LIFE INSURANCE COMPANY
HOME-OWNERS INSURANCE COMPANY
OWNERS INSURANCE COMPANY
PROPERTY-OWNERS INSURANCE COMPANY
SOUTHERN-OWNERS INSURANCE COMPANY



May 2, 2006

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Re: THE FLORIDA HURRICANE PROPOSAL

Dear Mark,

Thank you for taking the time to contact me regarding The Florida Hurricane Proposal, otherwise known as the Hawaii Plan. The purpose of this letter is to provide you with information regarding this plan. In our opinion, the Florida property insurance market is in a state of crisis. Several insurance companies have announced discontinuing writing property business in Florida. The reason is simple - lack of profitability and foreseeable future profitability.

The hurricanes of 2004 and 2005 have exacerbated the problem, with catastrophic losses being paid by many carriers. Unfortunately, the forecast is for increased storm activity for the next 10 to 20 years. The results are increased insurance premiums and lack of availability for policyholders. We feel a change is needed and this Florida Hurricane Proposal will provide the changes needed to encourage carriers to enter the market, providing the needed coverage we are looking for. This increased competition will ultimately result in reduced premiums for our policyholders and dramatically reduce the policies being handled by Citizens Insurance.

Auto-Owners has a real vested interest in Florida. We have and continue to be a major provider of property and casualty insurance in this state. Florida is our second largest state out of 24 states. We have offices in Lakeland, Clearwater, Ft. Myers, Palm City, Ocala, Tallahassee and Pensacola. We are represented by 272 independent agencies and 2,302 agents throughout the state. As you can see, we want to find a solution to this property crisis.

Attached is a copy of the Florida Hurricane Proposal, along with a copy of the Hawaii Plan. The Hawaii Plan was implemented in the state of Hawaii after devastating hurricanes hit the state approximately 10 years ago. Following these storms, the state went through very similar circumstances that Florida is facing today. Basically, the property insurance market began to shut down, resulting in lack of availability and rising insurance premiums. The Hawaii Plan reopened the market to insurance carriers, working so well, the plan was no longer needed after several years without hurricane activity.

~ Serving Our Policyholders and Agents for More Than 85 Years ~

The Florida Hurricane Proposal works very similar to how we handle flood insurance today. Hurricane coverage will be a separate peril and covered by a separate "Hurricane policy". The Homeowners policy will still provide all of their normal coverage's, including wind coverage, for non hurricane activity. The only difference is, if a named hurricane hits the state, the Hurricane policy will respond, instead of the Homeowners policy.

The proposal makes the entire state a hurricane pool. It converts the CAT Fund into a fund that would be authorized to issue a hurricane policy which would cover losses resulting from hurricanes and not Citizens Property Insurance Corporation. This proposal provides that carriers have the freedom to decide whether or not to underwrite the hurricane portion of the risk. This will increase the capacity in the private market available for non-hurricane risk. This will not exacerbate the current problems facing Citizens as the residual insurer of last resort, because if the insurer does not write the hurricane portion of the policy, then the hurricane policy will be placed in the new Hurricane Insurance Fund.

In order to solve the issue of efficient claims service, the carrier writing the homeowners policy would service and pay any hurricane claims. This provides quality claims service to policyholders in their time of need. Only after the fact, does the insurance carrier submit their paperwork to the Hurricane Insurance Fund for reimbursement of losses and expenses.

To encourage companies to write the hurricane exposure, a credit on their assessment should be available for companies writing hurricane coverage in highly exposed areas. If the company writes hurricane exposure on the coast, they would receive a greater credit than if they wrote hurricane coverage in the middle of the state. Zones would be established. The closer you are to the water, the more credit the carrier would receive on the assessment. This would, in fact, provide a huge incentive. All assessments paid by insurance companies could be passed on to their policyholders.

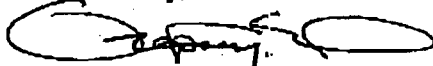
Another benefit of this proposal, would be for the benefit of the policyholder to be able to elect hurricane deductible gap coverage. For an additional premium, the insured can elect reduced deductibles, thus reducing their potential out-of-pocket exposure, in the event of a hurricane.

The Florida Hurricane Proposal completely opens up the property market. Companies would no longer discontinue writing policies. It would be just like writing business anywhere else in the United States. Companies, in fact, would compete with each other for additional business. This proposal solves the problems of availability, affordability, service and solvency.

I have enclosed a copy of the Proposal for your convenience. This is the proposal that could save the Florida property market.

If you would like to discuss further, please feel free to give me a call.

Sincerely,



Gregory Shell, CPCU, AIC
Regional Vice President

FLORIDA HURRICANE PROPOSAL

1.) Convert the CAT fund into a reinsurance fund that would be authorized to issue a hurricane policy which would cover losses resulting from a hurricane as declared by the National Weather Service and damages that occur for 72 hours after it is downgraded. Hurricane losses would include property damage, additional living expenses and loss of use resulting from hurricanes.

2.) Premiums for the Hurricane Insurance Fund would be actuarially sound and would anticipate surplus growth in the good years so that there would be enough money in the bad years to pay those claims. The Hurricane Insurance Fund would use hurricane loss modeling as criteria in establishing premiums.

3.) Funds from vetoes this past year would be transferred to the hurricane insurance fund.

4.) Citizens Insurance Company would not be eliminated, however, it is anticipated that policies in Citizens will significantly diminish as private insurers move back into the market place.

5.) The Hurricane Insurance Fund policy will be available statewide.

6.) The Insurance companies will have the freedom to exclude hurricane coverage both on new and renewal business with proper notification to the policyholder. This coverage would be replaced by the Hurricane Insurance Fund hurricane policy.

7.) To provide the policyholder with a single contract and save on administrative costs, the company issuing the property policy would service the hurricane policy on behalf of the Hurricane Insurance Fund, i.e., issue the policy on the Hurricane Insurance Fund paper, collect premium, handle the claims, etc.

8.) In the event there is insufficient surplus in the Hurricane Insurance Fund at the time of loss, cap the assessment to the industry at the larger of 5% of the subject premium or 5% of the deficit in any one year. The individual company's assessment would be based on their property market share in the previous year. Assessments paid by the insurance companies could be passed on to their policyholders on a use and file basis.

9.) The Hurricane Insurance Fund should be free to implement any program or series of programs, which would provide the cash necessary to pay for losses to their policyholders. This would include, but not be limited to, the following:

- a.) Surplus built from premiums collected from hurricane policies. The surplus should be insulated from all applicable taxes.
- b.) The Hurricane Insurance Fund would be authorized to buy as much reinsurance as is available in the private reinsurance market.
- c.) The Hurricane Insurance Fund would have an uninhibited right to borrow funds through such means as letters of credit, issuing bonds, etc.
- d.) The funds generated through borrowing would be repaid by premiums paid by hurricane policyholders and assessments, subject to the cap described above, on insurance companies.

10.) To encourage companies to write the hurricane exposure, a credit on their assessments should be available for companies writing hurricane coverage in highly exposed areas.

11.) The State of Florida shall pre-approve out of state contractors to rebuild property in FL upon a declaration of emergency by the governor.

It is imperative that this be a statewide program, which would benefit consumers by having greater availability of coverage, more competitive pricing, and a stable property insurance market.

Florida Association of REALTORS

Florida Association of REALTORS®

Recommendations to Florida Legislature Residential and Commercial Property Insurance Reform

Available and affordable property insurance is necessary for the continued health of Florida's economy and for the well-being of its citizens. The intensity of large natural disasters in recent years has made the acquisition of adequate homeowners' insurance very difficult in many areas of the state.

The Florida Association of REALTORS® is aggressively pursuing solutions to the insurance crisis at both the state and national levels. REALTORS® are interested to work with the newly elected Florida Legislature to advance legislation that will stimulate competition, stabilize rates and restore Citizens Property Insurance Corporation to its intended role as the state's insurer of last resort. These challenges are considerable and the consequences for the state are enormous.

We have reviewed the 51 recommendations of the Governors Property Insurance Reform Committee and the following outline generally follows those recommendations with additional REALTOR® recommendations included throughout. This list is not meant to be all inclusive. We have limited our recommendations to those we believe should be addressed in a special session of the legislature.

Recommendations

Residential Insurance Market/Consumer Issues

There are numerous recommendations from the Governors Property Insurance Reform Committee regarding transparency (informing consumers how their premiums are calculated). REALTORS® support transparency for consumers (residential and commercial), but not at an extreme cost to consumers. We understand that additional regulation in this area could increase the cost of premiums. This runs counter to our goal of reducing the cost of insurance for Florida property owners. We are especially interested in consumer awareness of assessments by Citizens Property Insurance Corporation (Citizens), the Florida Hurricane Catastrophe Fund (CAT Fund) and the Florida Insurance Guaranty Association (FIGA).

We support eliminating maximum allowable deductibles; that is, allowing insurers to offer deductibles of any amount in addition to the 2 percent, 5 percent and 10 percent deductibles that must be offered.

We often hear that the "Jeanie can't be put back in the bottle" with respect to "pup" companies in Florida. In an effort to restore consumer confidence in the insurance industry, the legislature should require retention of insurance company profits from Florida business to remain in Florida to build up reserves.

Florida's Commercial Insurance Market/Property Casualty Joint Underwriting Association (PCJUA)

The Florida Association of REALTORS® is willing to survey Commercial REALTORS® in Florida regarding property insurance issues specific to the commercial real estate sector. We also support the legislature studying how the current commercial policies at Citizens Property Insurance Corporation (Citizens) could be combined with the PCJUA. The PCJUA has only written 180 policies since July 2006, yet we are certain there is a substantial need and that additional applications for coverage are forthcoming. The PCJUA does not have the same tax free IRS status that Citizens enjoys. There are many reasons to not duplicate the efforts by having two separate agencies handling similar policies.

We support state funded research concerning mitigation of commercial structures, as well as evaluating whether strengthening the state's building code for commercial structures should be considered.

Mitigation and Building Back Better

REALTORS® support recommendation 13 from the Governors Property Insurance Reform Committee: Develop a code plus standard that the insurance industry would recognize for maximizing premium discounts.

We support expanding the “My Safe Florida” mitigation program. We support the creation of a not-for-profit corporation to raise funds from the private sector for additional mitigation grants as well as additional appropriations from the legislature solely for free inspections.

In demonstrating the REALTOR® commitment to mitigation, we support a voluntary uniform grading system for evaluating the hurricane strength of residential and commercial structures.

Our Board of Directors has a policy supporting the licensing of home inspectors. This would include wind mitigation inspectors.

Florida Hurricane Catastrophe Fund (CAT Fund)

The Florida Association of REALTORS® supports expansion of the CAT Fund through the reallocation of general revenue (specifically insurance premium tax, corporate tax and other insurance and rebuilding related tax revenue) to contribute resources to the CAT Fund.

We also support amending the State Constitution to limit the use of the assets of the CAT Fund to the purposes currently required by statute.

Citizens Property Insurance Corporation (Citizens)

Most importantly, REALTORS® are concerned with provisions included in SB 1980 that would limit non-homestead properties from receiving Citizens coverage. Florida is a very unique state that relies heavily on tourism. We understand the arguments being made that the state should not “subsidize” investment properties. But, realistically, if the second and vacation home market were to disappear in Florida, the impact on the economy would be devastating. Our members also have significant concerns about properties used for rentals and what will soon be the inability for families to afford their rent as property tax and insurance costs are passed on to the consumer.

We are also concerned that residential dwellings in excess of \$1 million will not be covered by Citizens in the future. If a figure is chosen as the maximum amount Citizens will cover for a dwelling, all of the state’s property owners needing insurance should have the ability to participate in the Citizens pool up to that amount. As the FDIC insures all deposits “up to” \$100,000, Citizens could insure all structures in their pool “up to” a certain level.

While controversial, REALTORS® support allowing Citizens to write the full policy.

We also support requiring Citizens policyholders to upgrade their homes to meet the statewide building code over some period of time or risk higher hurricane deductibles applicable to their policies.

REALTORS® support creative and alternative sources of insurance revenue such as using the capital markets or authorizing catastrophe bonds.

Federal Issues

Florida REALTORS® believe Congress must seriously consider a federal natural disaster program. We support both a federal reinsurance program as well as tax advantaged savings accounts that would allow property owners to put money aside tax free to cover their deductible and/or damage due to natural catastrophes.

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ProtectingAmerica.org

Admiral James M. Loy, National Co-Chair

Former Deputy Secretary, Department of Homeland Security
Commandant, U.S. Coast Guard (Retired)

James Lee Witt, National Co-Chair

Former Director, Federal Emergency Management Agency
Chief Executive Officer, International Code Council

An Agenda to Prepare for and Protect America from Catastrophe

America can do a better job preparing and protecting her citizens from natural catastrophes. ProtectingAmerica.org supports a comprehensive, integrated approach that will provide more protection at lower cost to consumers, improve preparedness, mitigate the impact of a catastrophe on our economy and reduce the financial burden on consumers and taxpayers. The solution should include five key elements:

Financial Protection for Consumers

- ◆ Strengthen financial protection for consumers by establishing catastrophe funds (CAT Funds) at the state and national level. CAT Funds would provide a backstop to the insurance protection provided by private insurers and help pay claims arising from major disasters once a threshold is exceeded.
- ◆ At the state level, create CAT Funds based on the model bill adopted by the National Conference of Insurance Legislators (NCOIL). The NCOIL bill is based on the Florida CAT Fund. State CAT Funds would sell reinsurance to all property and casualty insurers doing business in the state. The money paid by insurers into the Fund stays in the state and grows tax-free. Once an insurance company has paid a specified amount in claims, the Fund pays a percentage of the claims above that amount.
- ◆ At the federal level, Congress should pass H.R. 4366, which provides a backstop for state catastrophe funds through a national catastrophe fund. The national backstop would be administered by the Treasury Department to provide an added layer of protection for state catastrophe funds in the event a major catastrophe exhausts the state fund's financial capacity. State CAT Funds could not tap into the national catastrophe fund until both private insurers and the state CAT Fund meet their financial obligations.

Recovery and Rebuilding

- ◆ Improve the process of relief, recovery and rebuilding by developing new processes to stage and deploy essential relief materials and to make sure there are adequate building materials, supplies and licensed contractors available in the aftermath of a catastrophe.
- ◆ The federal and state catastrophe funds would establish new programs and processes that aid in the relief, recovery and rebuilding process.
- ◆ These efforts could include:
 - Better and more coordination among FEMA, state and local governments.
 - Better and more coordination among private relief agencies, insurance companies and policyholders.
 - Creation of staging areas so that adjustors, contractors, suppliers, FEMA, law enforcement, charities can all be centrally located so consumers can "one stop shop" for all their recovery needs.

- FEMA waiver of rules or guidelines that hinder the expedited processing of claims.
- State waiver of or temporary suspension of licensing requirements to allow out-of-state contractors into the state.
- FEMA creation of a national contractor license to facilitate contractor access to damaged areas.
- Better coordination among insurers, local officials and FEMA to facilitate quicker access to damaged areas.
- Consider development of Alternative Dispute Resolutions programs to promptly settle disputes that may arise.

Prevention and Mitigation

- ◆ Strengthen prevention and mitigation programs through stronger building codes and better enforcement to require new construction to better meet the challenges of catastrophic events. Prevention and mitigation programs save lives and protect property.
- ◆ Under the state CAT Fund laws the Legislature would:
 - Appropriate from the investment income of the fund an amount to be determined by the state (e.g., 10 percent of the investment income earned by the fund) for the purpose of providing funding for first responders, local governments, state agencies, public and private educational institutions, and nonprofit organizations and charities to develop and/or support programs intended to:
 - Improve catastrophe preparedness.
 - Prevent and reduce potential losses from a covered loss.
 - Provide research into means to prevent and reduce such losses.
 - Educate or inform the public as to means to reduce losses from covered events.
 - Assist the public in determining the appropriateness of particular upgrades to structures or in the financing of such upgrades.
 - Provide funding for the enforcement of catastrophe appropriate building codes.
 - Protect local infrastructure from potential damage from a covered loss.
- ◆ State and federal legislation should include the following provisions for prevention and mitigation:
 - Creation of an advisory council specifically charged with the creation, implementation and enforcement of prevention and mitigation programs and guidelines. These include:
 - The development and implementation of modern state building codes appropriate for the risk with no allowance for weaker codes to be adopted by local communities.
 - Adequate enforcement of risk appropriate building codes.
 - Building materials that prevent or significantly reduce potential damage.
 - Focus on prevention and mitigation for any substantially damaged structure.
 - Innovation to retrofit existing homes.

Consumer Protecting and Education

- ◆ Improve consumer education and consumer protections to make sure people are better prepared for catastrophes before they strike and to empower them to guard against scam artists who take advantage of families at their deepest time of need.
- ◆ The federal bill conditions participation by the states on the state enacting and enforcing tough anti-gouging laws so that consumers are protected against predators.
- ◆ Both the federal and state bills stress the need for consumer education. The Advisory Council shall develop and implement consumer education standards.

Continuous Improvement

- ◆ Create a rigorous process of continuous improvement by establishing a commission of local, state and federal officials along with the private sector to review and assess recovery efforts after every disaster to identify ways to continually improve our ability to recover from catastrophes.
- ◆ Both the federal and state bills contain continuous improvement provisions. The federal bill creates a high level Commission to deal with this issue and gives the Secretary of the Treasury the authority to promulgate regulations. Furthermore, the bill states:
 - The Commission shall meet for the purposes of advising the Secretary regarding the estimated loss costs associated with the contracts for reinsurance coverage and developing and implementing prevention, mitigation, recovery and rebuilding standards. The Commission will be charged with continuous analysis of the effectiveness of the Act and recommending improvements to Congress.
 - The Secretary of the Treasury shall conduct an annual study on the cost and availability of homeowners' insurance for losses resulting from catastrophic natural disasters covered by the reinsurance program as well as reporting on the efforts of the participating states in enacting prevention, mitigation, recovery and rebuilding standards.
 - State Advisory Councils should report their findings to their legislatures on an annual basis.

State Farm

Dear Legislator,

I want to thank you for inviting State Farm to participate in the House Conference on Property Insurance. It's clear that our fellow Floridians expect a thorough and thoughtful look at the property insurance market place. This Conference will provide the opportunity to begin that process and to assist with our own analysis of reform proposals, we've drafted the enclosed set of principles. We'd urge that any proposed solution be measured against these standards.

As you are know, earlier this year State Farm had to raise its rates for home insurance in Florida. We truly wish that weren't the case, but with rising home repair costs, the increasing frequency of hurricanes, and the accompanying upward pressure on reinsurance costs, it's no secret that it's increasingly expensive to insure homes in Florida. In 1992, after Hurricane Andrew, State Farm Fire and Casualty Company paid over \$4 billion in benefits to Florida policyholders -- wiping out every penny of profit that it had accumulated on a countrywide basis since the Company was started in 1935. Insuring homes profitably in Florida continues to be difficult and State Farm Florida has lost over \$600 million since it began doing business in the state in 1998. Despite these challenges, State Farm remains committed to serving our Florida customers.

Sincerely

Joe Formusa

Property Insurance Reform

Overview:

The reality is that we live in a place where hurricanes can and do hit. Our families, homes, and our personal property are at risk. There must be a shared responsibility to solve the property insurance crisis. The collective efforts of insurance agents, insurance companies (including Citizens), reinsurance companies (including FHCF), policyholders, builders, lenders, real estate professionals, and others must share in the solution. While recognizing the hurricane peril is enormous, less governmental control and greater private sector involvement are in the best interest of all - long-term.

There are no “quick” fixes to solve the insurance crisis here in Florida. It will take Floridians reinforcing their homes to withstand hurricanes. And, it will take more money in a state hurricane fund to cover the cost of rebuilding homes damaged or destroyed after a storm. Together these two initiatives can make Florida more stable and inviting for insurers to do business in this market.

Right now, the # 1 thing Floridians can do to make a difference is to get educated about how to make their homes safer. A top priority for homeowners should be investing in a new roof and/or installing hurricane shutters. As Floridians, the more we invest in reinforcing our homes to withstand hurricanes, the less we’ll have to pay into a fund to cover the obvious threat.

On a macro level, some changes to the current regulatory systems are needed. Although many of the recommendations of the Property and Casualty Reform Committee will not have an immediate effect on the crisis, they do have the possibility of creating structural changes that can stabilize the market, making it a more inviting business environment for insurers over the long term. All one has to do is look back in recent history at other insurance market crisis turnarounds to see that the structural changes had no immediate impact, but in a few years dramatic improvement was made. Examples include: California (earthquakes); Hawaii (hurricanes); and the auto markets in New Jersey and South Carolina. Policymakers are under extreme pressure to “do something,” because there is a misconception that every problem can be legislated away. However, it is critical that policymakers, the public, and the press alike maintain realistic expectations about how quickly consumers will see the market return to normal.

We must be careful that short-term solutions do not create the expectation of perpetual governmental controls or cross-subsidies. Policymakers must be careful not to create solutions which actually reduce competition, such as injecting another under-capitalized governmental entity into the private arena. Short-term stability must be balanced against real long-term solutions and the other guiding principles.

Guiding Principles:

1. **Personal responsibility** – Floridians should be encouraged to strengthen their homes and businesses through mitigation, thereby reducing their risk of loss of life and personal property. Prevention and mitigation will reduce the overall exposure to hurricane losses. This must be a primary focus of our policymakers’ efforts.

2. **“First, no harm”** – Proposals to finance inevitable hurricane losses should not discourage capital investments in the Florida property insurance market. Policymakers must build on the strengths of the current system and enhance the amount of private capital invested to address Florida’s hurricane risk.
3. **Cost equals risk** – Premiums that policyholders pay to protect their homes and businesses must be based on sound actuarial science. Cross-subsidies borne by policyholders in less risk-prone areas should be minimized, if not eliminated. Those located in wind-prone areas that leave their structures incapable of withstanding the perils of a windstorm should bear their full share of the burden. Those who choose to live in less wind-prone areas and/or have built or strengthened their structures to mitigate against wind damage should not subsidize those that do not make the same choices.
4. **Market-Based Solutions** – Policymakers should work toward a long-term goal of relying on private market companies to insure the hurricane risk. While recognizing the hurricane peril is enormous, less government and greater private sector involvement is in the best long-term interest. Reduced reliance on under-capitalized residual markets is a priority.
5. **Pre-event funding** –A long-term goal must be to rely on adequate premiums and pre-event accumulation of funds. We must not rely on post-event financing through the use of policyholder assessments and public taxes. Accordingly, pre-event funding to pay hurricane losses is a priority. To do otherwise is to mortgage Florida’s financial future.